ECONOMIC DEMOCRACY

AMERICA'S ANSWER TO SOCIALISM AND COMMUNISM

ROBERT S. BROOKINGS

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ECONOMIC DEMOCRACY

AMERICA'S ANSWER TO SOCIALISM AND COMMUNISM

A Collection of Articles, Addresses and Papers

BY

ROBERT S. BROOKINGS

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When wilt thou save the people?
O God of mercy, when?
Not kings and lords, but nations!
Not thrones and crowns, but men!
Flowers of Thy Heart, O God, are they;
Let them not pass, like weeds, away—
Their heritage a sunless day.
God save the people!

Shall crime bring crime forever?
Strength aiding still the strong?
Is it Thy will, O Father,
That man shall toil for wrong?
"No," say Thy mountains; "No," Thy skies,
Man's clouded sun shall brightly rise,
And songs ascend instead of sighs.
God save the people!

When wilt Thou save the people?
O God of mercy, when?
The people, Lord, the people,
Not thrones and crowns, but men!
God save the people; Thine they are,
Thy children as Thine angels fair;
From vice, oppression and despair,
God save the people!

—Ebenezer Elliott (1781-1849),
"The Corn-Law Rhymer."

PREFACE

This book is a companion volume to *Industrial Ownership,* published by the Macmillan Company in February, 1925 (second edition, November, 1925). Together with that volume it embodies the most important conclusions concerning our economic organization which I have reached as the result of many years personal contact with some of the most important commercial, industrial, political, and educational institutions of the United States.

In the introduction to *Industrial Ownership* I indicated such credentials as I could offer in explanation of my temerity in offering to the world my interpretation of what I believe to be the world's most important economic problem. I may be pardoned for recapitulating it briefly here.

Entering the employ of Cupples and Marston, Saint Louis, in January, 1867, at the early age of seventeen, I became a member

of the reorganized firm of Samuel Cupples and Company at the age of twenty-two. From shortly after that time until I retired from business in 1896, a period of nearly twenty-five years, I was practically the manager of this company, which, in addition to representing as agent a large number of manufacturing concerns, was itself part or entire owner in several important manufacturing enterprises. Among others, it owned a controlling interest in a small cordage company, which as an independent producer was an active competitor of the first great American trust, The National Cordage Company.

Retiring from active business at the age of forty-six, I became interested as the President of the Washington University Corporation, Saint Louis, in university work; and since then practically all of my time has been given to education and similar activities. Yet I have never ceased to maintain my interest in industrial problems. Both in the University and in my research activities at Washington, D. C., as President of the Institute of Economics and the Institute for Government Research, and later as Chairman of the Board of The Brookings Institution, I have

been closely associated with professional research economists whose criticisms and suggestions have been helpful in the formulation of the observations herein set forth.

Both as Chairman of the Price Fixing Committee during the war, which brought me into contact with practically all of the important industries of the country, and as one of those appointed by the President to represent the public in the Labor Conference in the autumn of 1919, I have had unusual opportunity to keep in touch with that all-important problem, the relation of management and capital to labor and the public.

As the ideas developed in the papers which are now offered to the public are supplemental to those set forth in *Industrial Ownership,* the following digest of the conclusions of the earlier book, which appeared as the Introduction to the Second Edition of that book, is here reprinted:

Money in industry is worth no more or no less (risk considered) than money in transportation, public utilities or any other form of investment. Management in industry is worth no more or no less than it contributes to the efficiency of capital and labor. Labor,

therefore, is interested in compensating capital sufficiently to keep it in industry, and in paying management all that it can make itself worth.

Finally, each labor group in fixing its own labor wage, which establishes a market price for its product, must have due regard for the public—the public being the other labor groups. Large production per capita is absolutely necessary in order to compensate capital and management and leave for labor (which is all the people) a margin over subsistence needs, which margin may be distributed among all the people through the wide distribution of securities, as demonstrated by the industrial evolution of recent years in the United States. There can be no overproduction of any commodity if production of all commodities is so balanced as to equalize demand through exchange; and finally, a saturated market would in the last analysis only make for reduced hours of labor, which would ensure that leisure which makes for intellectual, moral, and spiritual growth.

Capital, *not* labor, should be treated by management as a commodity in industry, to

be fairly compensated in order to retain it in industry in competition with other forms of investment.

As labor is so largely interested in, and is so largely responsible for industrial results, it should be given the authority of a liberal representation on the board of directors.

Tables submitted (See Appendix II, *Industrial Ownership*) show that for a period of five years, profits in industry were not as large as profits in banking and other non-labor employing forms of investment which involve less risk and therefore the minimum essential to keeping capital in industry. It is also shown that management is not overpaid. The only source, therefore, of continued improved living conditions for the worker is increased production per capita. It suggests that, having paid capital for its use and management for its service, the worker, like the tenant farmer, should be in possession of the means or facilities with which to supply himself with everything he needs and control his own hours of labor; that he need not fear overproduction of anything if production of different goods balances with the demand and an equitable system of exchange

between the producing groups is established. To accomplish this involves a knowledge of needs and the regulation of production which is not only prohibited by our anti-trust laws, but can only be approximately realized if we are to retain that measure of competition essential to all progress.

The book ends with calling attention to the industrial waste said to result from provisions of the anti-trust laws and the wasteful methods of labor union policies as a first source of possible increased production and suggests a study of these two impediments with a view to their elimination or modification. Attention is especially called to the changed relation of management to industry through the wide distribution of industrial securities to the investing public, who ask only a reasonable, stabilized dividend. This greatly modifies, if it does not entirely eliminate, the incentive or motive for extortionate profits which was the menace of ownership management that the anti-trust laws were enacted to prevent.

It is no longer a problem of capital and labor (one group of workers) but of labor and the public (which are all the groups of

workers). This conception of the industrial situation must by necessity entirely change the policies of trade unions. Labor's assumption of both authority and responsibility leaves no place for militant or bargaining methods.

ROBERT S. BROOKINGS.

Washington, D. C.
July, 1929.

INTRODUCTION

When I first thought of writing a book on "Economic Democracy," it was with the intention of assembling the contents of my addresses and papers extending over a period of years, and dealing more or less in details all of which had a direct bearing on this subject, and then so editing them as to present the subject in better sequence than the articles or papers present to each other chronologically. But, as each address or paper had a direct bearing on problems current at the time it was written, I have concluded to publish them in the order and under the date of their original appearance. Some of them were widely distributed by means of the public press, and in pamphlet form.

In coming to this conclusion, I feel it is necessary for me to write an introduction dealing (1), with the underlying thought which is responsible for my convictions, and

(2), presenting briefly the principles contained in the said addresses and publications in some sequence. I must reiterate the statement made in my introduction to *Industrial Ownership,* namely, that while I have been classed by the press as an economist I certainly have no claim to that professional title. I write only as one who, through the long business experience of more than sixty years, has had much to do with manufacturing and distribution (the latter as distributing agent for many manufacturers), and whose war service gave him exceptional opportunity to become familar with the industrial problems of the nation; and as one whose interest in higher education and research in the social, economic, and political sciences is more or less well known, both through my activities as President of Washington University (St. Louis), and as the founder of The Brookings Institution (Washington, D. C.), for research and training in the social, or humanistic, sciences.

First, in regard to the thought and study which developed my convictions: Experience taught me that the economic argument of the "classical" economists who followed the ap-

pearance of Adam Smith's great book, *The Wealth of Nations* (which first appeared in 1776, the year of our national independence), while *logically* convincing, was *actually* incomplete in that it made no allowance for the moral and intellectual development of man and his dependence upon nationalism for its expression, so ably presented later by Adam Müller and Frederick List, or for the economic influence of mechanical production upon the relation of capital to labor. Their interpretation of Adam Smith's theory of the absolutely controlling influence of the law of supply and demand regarded human labor as a commodity, like horses or other animals that contribute physical power to production. This human commodity would fluctuate in value from over-supply (leading to a subsistence so low as to cause economic extermination) to a scarcity (which in turn would stimulate its production and consequent over-supply) in an ever-repeating cycle. Following this was their argument for world-wide free trade, under which each individual, or group of individuals, or nation (depending upon local conditions and special capacities or qualifications) would produce at the mini-

mum expenditure of capital and labor, and then, by exchanging products with each other, would contribute to, or increase, the wealth of each.

They utterly failed to take into account the growing intelligence of the workers, who soon began to realize that their economic slavery was even worse than their political slavery, and through the radical influence of socialism and communism, and the more conservative labor unions, registered their protest against being classed economically with the animal kingdom, or any other purely physical contribution to production. They failed also to foresee the far-reaching influence of modern mechanical, or large shop, production which, in its American evolution, though at first subjecting the worker to a position of dependence and antagonism, eventually, through the economic advantage of co-operation, and the necessity of stimulating both the self-interest of the worker and greater consumption by the masses, led to the adoption of the large "saving wage"—thus greatly increasing consumption and the size of the home market, which in turn made possible that maximum efficiency dependent upon

labor-saving machinery and standardized mass production.

The little colony of Puritans, who landed on the shores of the potentially richest continent in the world, proceeded to put into practice their Christian faith in the brotherhood of man by raising the submerged masses to an *equality of opportunity.* During the first hundred and eighty years (roughly from 1620 to 1800) they secured their political freedom, and established a democratic, constitutional form of government; during the next hundred years (1800-1900), with the aid of protective tariff laws, they developed their economic independence; and since that period, by immigration as well as by protective tariff laws, they have developed an economic democracy, in most respects even more important than a political democracy, by working out the following policies and methods:

The sound economic relation of capital, labor, management, and the public to each other, and the just or fair distribution of production among these interests in the order of

(1) A "saving wage" that is sufficient for the comfortable needs of a family, with a margin for saving that will insure the worker

against the menaces of unemployment, sickness, old age, and death.

(2) Compensation to capital commensurate with the risk it assumes (interest and dividends on bonds, stocks, etc.)

(3) Compensation to management in the ratio of its contribution to the efficiency of capital and labor.

(4) The fixing of a price to the public, which is influenced under free competition within the nation (secured by our anti-trust laws), by the law of supply and demand, and which must be made fair if an industry is to avoid the increased competition and ultimate disaster invited by too high a relative price.

Under this system, naturally if the hat industry is much more profitable than the shoe industry the drift of capital will be into hat-making, with the inevitable overproduction and disaster. It must be evident that this equality of opportunity, which is our fundamental national policy, is dependent upon the strict enforcement of our anti-trust laws.[1]

Efficiency is measured by the unit cost of

[1] See "Overproduction, in its Relation to our Anti-Trust, Immigration and Protective Tariff Laws," pp. 66-78.

an article in terms of the amount of capital and labor consumed in its production. Efficiency has progressively followed the delopment into larger units of management and ownership, both in production (large corporations) and in distribution (department stores, catalogue houses, chain stores, etc.). These large units lend themselves best to labor-saving devices and to mass-standardized production by the segregation into departments, each of which offers opportunity for special managerial talent, as witness the personnel officer who hires and discharges the employees. The waste of the round peg in the square hole is one of the great drains upon industry. No two men or women are exactly alike, and in their fitness for a given job they vary enormously. A person absolutely unfit for one job may be an expert at another.

The corporation also by its flexibility in securing increased capital, and by numerous other advantages, including the important service it renders in distributing the national wealth through offering investment in its securities, has become the universal form of organization in all fields of production and

distribution except agriculture. This is probably one of the outstanding causes of agriculture's failure to develop a degree of efficiency equal to that of our other industries.[2]

To obtain control, for efficient production, as above outlined, of the large home market, and to maintain the required high wage, it was necessary for us to protect our economic policy against outside or foreign influence by enacting tariff and immigration laws. The "saving wage" has so raised the standard of living among the great mass of the population and made our home market so large that we are practically independent of exports. Yet the efficiency of our labor, through constantly improved labor-saving devices, coupled with the stimulated interest of the worker and our supply of raw materials and foodstuffs, has enabled us to export large quantities of certain manufactures. Were agriculture as efficient as our other industries, the problem of exporting its surplus at a profit would probably be solved. As about sixty per cent of our import needs for

[2] See "Agricultural Corporations" and "Socializing the Soulless Corporation," pp. 79-104.

exchange purposes do not conflict with our industry to any extent, agriculture, with the same protection as other industries, should not be crying for special government aid or subsidy.

The "saving wage," which is not only sufficient for subsistence needs but provides for the necessary savings to protect the worker and his family from the menaces of unemployment, sickness, old age, and death, has grown to a size which is rapidly making capitalists of all our workers. Many of the large corporations are encouraging the thrift of their employees by assisting them to invest their savings in the stock of the corporation. It is estimated that, while the savings of each employee are seemingly small, the aggregate (owing to their great number) is becoming large, making the consolidated investments of the workers a real factor in the economic life of the nation, and thus creating a real "economic democracy," which is America's answer to socialism and communism with their inherent fundamental weaknesses. Should our demonstration with its methods commend itself, as we hope, to the old world, and the economic condition of their workers

become equal to that of our own, the necessity for our tariff laws would disappear, and Adam Smith's dream of world-wide free trade might be realized.[3]

Individual opportunity has been by some writers erroneously associated with that large group of small producers and retail dealers who, working under a wasteful and inefficient economic system, simply consumed each other (as witness the large proportion of failures recorded by Dun and Bradstreet) without rendering either themselves or the public any adequate service. In contrast with this system, we have the socialized corporation,[4] owned by all the people, which, functioning under sound economic laws of efficiency, gives its employees, from whose ranks department managers and chief executives generally rise, the maximum opportunity for individual development.

[3] See "The Proposed European Economic Union," pp. 24-39.

[4] See "Socializing the Soulless Corporation," pp. 98-104.

CONTENTS

ECONOMIC DEMOCRACY

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CHAPTER I

Co-operation Versus Competition in Business Practice

An address before the Academy of Political Science in the City of New York, at its Annual Meeting on "Trade Associations and Business Combinations," October 28, 1925.

In seeking to develop an effective method of controlling our industrial system we are confronted with the dilemma that competition and co-operation, each of which has very great and very definite value, are to a large extent inconsistent with one another. Competition, we have always been told, is the life of trade, the chief incentive to individual efficiency and the key to the adjustment of individual effort to social needs. On the other hand, it is becoming more and more clear that blind competition, as imposed upon industry by the earlier interpretations of our anti-trust laws, has been the cause of wide fluctuations in supply and demand, produc-

tive of inefficiency, waste, and unemployment. Our problem is to work out some method by which we may obtain the benefits of competition with as little as possible of this accompanying disorganization and loss.

Of the great mass of our business corporations, numbering several hundred thousand, only a relatively small portion, through some special advantage, are functioning very profitably. The larger, best managed, and most seasoned corporations (such as the United States Steel Corporation and others)[1] are earning only a minimum return on investment, and a large minority, nearly one-half in number of the corporations, are not only making no profit at all, but show deficits with the resultant annual mortality.

While in a general way we all recognize that there is a great risk in business, few of us realize how great this risk is until we are confronted with the actual figures; for example: the Treasury Department report of corporation income returns for the five years from 1919 to 1923 inclusive, shows that out of 1,804,096 reports, 1,030,070 show a profit

[1] See Robert S. Brookings, "Industrial Ownership," The Macmillan Company, 1925, Chapter IV and pp. 91-105.

of $32,141,517,500 while 774,026 show a loss of $11,110,520,462. The loss, in other words, amounted to as much, roughly, as thirty-four per cent of the profits. The exact figures for each year are as follows:

Year	Number of Corporations	Profit	Number of Corporations	Loss
1919	209,634	$7,414,624,982	110,564	$995,546,241
1920	203,233	6,497,396,863	142,362	2,029,423,744
1921	171,329	3,823,261,008	185,158	3,878,219,134
1922	212,535	6,565,610,810	170,348	2,193,776,356
1923	233,339	7,840,623,827	165,594	2,013,534,987

It will be noted that in a very bad year like 1921, the loss was greater than the profit. The exhibit, however, shows that over a period of years, good and bad, we must reckon with a large average loss under our present industrial system. I think I fairly demonstrated in *Industrial Ownership* that the most important industries which operate at a profit did not average, over a period of five years (good and bad) a profit of more than, roughly, 7.75 per cent.[2] If allowance were made for the corporations which show deficits the average would clearly be much lower than this figure. We have no reports of the in-

[2] *Ibid.*

vested capital of all corporations, but the "fair value" figures reported for the capital stock tax may be used as a substitute. On this basis the net return of all corporations for 1922, which was a good year, runs about 5¾ per cent. So we know from sad experience that blind or ignorant competition has failed to make its reasonable contribution through earnings to our national economic needs.

We are told the remedy for this is such co-operation as is practised or proposed by the trade associations, but we are at the same time warned that the logical climax of co-operation is socialism, which would eliminate the competition essential to all progress.

In order that we may more clearly visualize the underlying principles involved in co-operation and competition, I will first give an extreme example of each, followed by a survey of our industrial situation, in hope of stimulating discussion tending to the solution of what I conceive to be one of our most important industrial problems. The problem is: how and to what extent can we get maximum value out of both co-operation and competition and avoid the dangers of each?

An extreme story of co-operation as it

would be told by a socialist would probably run about as follows:

In order to supply the ever-increasing needs and desires of modern civilization we have been compelled, through division of labor and development of labor-saving devices with expert management, progressively to increase production per capita. We are told that this process has developed both the machine and the worker in this country to a degree of efficiency that would supply either directly or by exchange every inhabitant with every need and reasonable desire, working less than eight hours per day, if there were no idle machines or idle workers. We are told that unemployment (idle machines and idle workers) is not the result of overproduction of certain commodities, but the result of underproduction of certain other commodities necessary for exchange. We are told that if we would stabilize industry by so regulating supply as to balance with demand, our problem would be solved and everyone who is willing to work could produce everything he or she needed.

Of course, to balance supply and demand would involve an absolute control of both

production and distribution, requiring no less authority than that of government. It is the best picture which socialists could present, retaining private ownership with government regulation; but, as it would involve for exchange purposes a fixing of prices on all commodities and all services, there would probably be under this flattening-out process no reward to stimulate further inventions for promotion of increased production per capita, and the inevitable laggard, who would profit by his neighbor's industry, would slow down his production and we would soon find ourselves drifting into the unhappy Russian situation. Here we have an example of co-operation followed to its logical conclusion.

We have, on the other hand, in Henry Ford, an outstanding demonstration of unlimited competition. Starting about twenty-five years ago, with only his genius and energy, he has given us the greatest industrial demonstration in the history of the world. Paying much the highest wage in the world, working entirely from within, concentrating on the one problem of increased production per capita, and applying his philosophy of ever-decreasing price to put his product within the pur-

chasing power of the greatest number of people, he has reduced the unit cost of an automobile so low as to be practically beyond competition in all markets of the world, and he has, incidentally, accumulated a surplus of over five hundred million dollars. Mr. Ford tells us in his book that while he examines every automobile that appears on the market, he never gives a moment's thought to the business methods of a competitor, as that would be robbing his own of just that much time.[3]

Between this remarkable demonstration of unlimited competition and the hypothetical case of complete co-operation, we have to deal with a condition. Having in mind that we cannot distribute among the people more than we produce, maximum production per capita must be our goal, and the Ford demonstration is the last word in this direction. He tells us in his book that in the four years (1908 to 1911) he increased production per capita about three hundred per cent, producing in 1908, 6,000 machines with 1,900 men, and in 1911 nearly 35,000 with 4, 100 men. While we may hope that we have not exhausted in Mr.

[3] Henry Ford, "My Life and Work," 1923, p. 145.

Ford our national genius for industrial efficiency, we can hardly develop an industrial policy based upon his remarkable showing. As we cannot produce Henry Fords and are dealing with a condition, our problem then is with the great mass of our going corporations. Briefly restated, it is: how and in what degree may we avail ourselves of stabilization by co-operation and yet avoid the danger of lessened competition? The answer is difficult, but it would seem that the plan or policy best worth trying is the substitution of efficient enlightened competition for the wastes of ignorant competition and unfair practices, and the responsibility for this service must rest with the trade associations.

The cure for blind or ignorant competition is the assembling and dissemination of reliable statistics covering capacity, production, stocks, sales and prices. This information, to serve its maximum purpose, should be as current as possible and given the widest publicity for the intelligent guidance of producer, dealer and consumer. Research activities are sacred as the source of that efficiency which insures the reward of service and stimulates competition. When the public (producer,

dealer and consumer) all act upon the same information, stabilization must follow and the wasteful spread between supply and demand be diminished.

I have found a wide difference of opinion among the industries as to whether or not such statistics as specifically apply to supply and demand, for the sake of completeness and reliability, should be best secured by the government or by the trade associations. On the one hand, it is said that these statistics to be of value should be complete and, therefore, include the entire industry (in and out of the trade association) and secured under penalty which only government can exact. Upon the other hand, many seem to feel that the trade associations can do this work much more efficiently themselves and that, as the anti-trust laws have by the recent decisions become more clearly defined, few important producers will remain outside of the associations. I am told that many of the trade associations, ignoring their own best interests, have failed to observe the publicity urgently recommended in the past both by Secretary Hoover and the United States Chamber of Commerce, and such as is now required by

the recent Supreme Court decisions in the cement and maple flooring cases.[4]

The overwhelming interest of the public is increased production per capita, and what we now need is a decision of the Supreme Court to the effect that any consolidation or aggregation of interests which clearly promotes this end and does not tend to create a monopoly should be encouraged and not discouraged by the Federal Trade Commission as was the case in certain recent proposed steel consolidations. The Secretary of Agriculture has just recently reported as the result of his thorough investigation of the meat-packing industry, an investigation occasioned by the purchase of Morris and Company by Armour and Company which consolidated about twenty-five per cent of the packing business in Armour and Company's hands, that there was no evidence of lessened competition as a result of said purchase, and there was every evidence of Armour and Company's improved efficiency, which was

[4] Maple Flooring Manufacturers Assn. et al *v.* United States. Decided June 1, 1925.

Cement Manufacturers Protective Assn. et al *v.* United States. Decided June 1, 1925.

clearly in the public interest. A certain degree of foreign competition might give us the stimulus of the world's efficiency and act as a wholesome restraint upon the tendency towards a closed or artificially sustained home market. We must, of course, maintain a sufficient tariff to protect our national economic policy of a high wage which with resultant efficiency is the best method for an equitable distribution of our wealth among the workers. We are told, however, that many of our tariff schedules are unnecessarily high for this purpose and simply act as a temptation to lessened competition.

It is argued by many manufacturers, and it is my own experience, that ignorant competition is one of the most demoralizing influences in industry. It seems as though a new element of this kind is born as fast as one expires (frequently on the wreckage of the old) and the large accumulation of capital in this country enhances this menace. With fair returns only on capital and the usual surplus capacity given wide publicity, the opportunity of a certain class of promoters to exploit the eagerness of capital for investment will be curtailed.

The United States Chamber of Commerce by referendum has evolved a code of business ethics for which the trade associations can well afford to stand sponsor. Unfair practices which are penalized by the anti-trust laws have no place in the limelight and the trade associations are in the best possible position to discover and give them publicity. So long as the individual methods of efficiency with resultant quality and cost are held inviolate, I know of no industrial information regarding past transactions which may not be given the widest publicity without lessening the opportunity of efficiency or the reward which stimulates competition.

CHAPTER II

Big Business and the Public

Remarks made by Mr. Brookings at the dinner of the New York Economic Club, at the Hotel Astor, April 28, 1926. The general subject discussed was, "Is the Present Tendency Toward Business Combinations in the Public Interest?"

I am asked to express an opinion as to whether the tendency of business to combinations into large corporations, or what is known as "Big Business," is or is not in the public interest. It must be obvious that a subject which necessarily deals with the production and distribution of the vast resources of this country can hardly be comprehensively treated in the twenty or twenty-five minutes at my disposal this evening. I wish to say, therefore, that the paper which I have prepared is a bare skeleton of my argument or thesis, as I could easily fill a volume with added details and sustaining items.

I believe the trend of industry into large

units, if properly organized and functioning, of course, within the law, is distinctly in the public interest because it best lends itself to certain fundamental elements of efficiency in production and distribution, and to that stability essential to the security which promotes the distribution of our national wealth among all the people.

Fundamentally the test of big business must be its efficiency.

Efficiency is measured by maximum production per capita.

Maximum production per capita is dependent upon the division of labor, the adoption of labor saving devices, the standardization of mass production, and economy in distribution.

Distribution of maximum production depends primarily upon a large market which, in turn, depends upon the living conditions or purchasing power of the people.

Purchasing power depends upon a relatively high wage such as we have adopted as our national policy.

I believe that large corporations, or so-called "Big Business," such as the United States Steel Corporation, not only lend them-

selves to maximum production per capita through mass standardization, but offer through the wide ownership of their securities the best method of distributing our national wealth among all the people. Efficiency combined with security is found in the large corporation which owns or controls every leg of its operations, thus insuring a co-ordinated sequence of production, and which so locates or zones its several plants as to economize cost of distribution through lessened cost of transportation. "Big Business' by distributing its risks over a variety and number of products, adds an element of security which only a large number of units can give. Large capital, by making possible the development of wide home and foreign markets, gives an added element of stability.

The Price-Fixing Committee, of which I was chairman during the war, assembled a vast amount of information regarding industrial efficiency as reflected by the return upon investment. The information was shortly afterward published in a report by the Federal Trade Commission. This report shows that, as a rule, neither the smallest nor the largest producer earned the greatest return

on investment. It was rather the medium-sized corporation which had attained volume enough for efficiency, coupled with a certain flexibility, frequent turnover, and the more intense service of ownership-management which often proved to be the most profitable. This competition, in addition to the restraining influence of our anti-trust laws, has proved an abundant check on any monopolistic tendency in our home market by "Big Business." While the medium-sized, closely held corporation, however, may frequently show a larger return on investment than that of its "Big Business" competitor, its very dependence upon the human equation and the lack of other stabilizing influences does not lend itself to that security essential to the wide distribution of our rapidly increasing national wealth, security being the first essential in promoting the saving habit of a people.

A wide distribution of "Big Business" securities has so segregated management from ownership as to enable us to develop an understanding of the relation of capital, management, labor, and the public to each other such as was difficult, if not impossible, under the old régime of ownership-manage-

ment. To discuss "Big Business and the Public," in an understanding way, we should study the component parts of each. In my little book, *Industrial Ownership,* I undertake to demonstrate through "Big Business" organization the logical relation of those elements or interests which enter into industry, that is, capital, management, labor, and the public.

Having received some two hundred letters from the best-known university presidents, economists, captains of industry, and labor leaders, practically all of whom accepted the findings or content of the little book as being sound, I take the liberty of quoting from it:

"Money in industry is worth no more or no less, risk considered, than money in transportation, public utilities, or any other form of investment. Management in industry is worth no more or no less than it contributes to the efficiency of labor. Labor is, therefore, interested in fairly compensating capital in order to keep it in industry and in paying management all that it can make itself worth. Labor, having thus paid management for its service and capital for the use of industrial facilities, must then in fixing its own wage, which fixes the market price of its product, have due regard for the public which is all of

the other labor groups, including transportation, agriculture, professional and other services.''[1]

This interpretation of the position of labor while differing widely from the usual understanding is coming more and more to be accepted. It simply places the industrial worker, however, in a position analogous to that of the tenant farmer, who, having paid his landlord rent, is in undisputed possession of his farming facilities. One third, or 35,000,000 of our population live on farms, and about 40 per cent of the farms are rented.

Labor, being thus so largely responsible for and so largely interested in industrial results, should certainly be given, in the interest of the widely scattered stockholders, a reasonable representation on the board of directors. While issue may be made with the contributing value of such representation, I am convinced from my own experience of its importance, and the records show that not only the heads of departments but the chief executives of industry, as in transportation, have as a rule developed from the lower

[1] Robert S. Brookings, *Industrial Ownership,* The Macmillan Company, 1925, pp. xi-xii.

ranks. A measure of authority with responsibility promotes this development, and "Big Business" must progressively develop its management in this way.

As the public simply consists of numerous groups of workers, including those who render professional and other services, the problem under this interpretation does not seem to be the relation of "Big Business" to the public as much as the more complicated problem of the relation of each labor group, or group of workers, through mediums of exchange, to all other groups. In getting below the surface of "Big Business and the Public," therefore, we find the public is simply composed of "Big Business" and other groups of workers who are also rapidly becoming the capitalists.

We know from the difficulty we are now experiencing in adjusting the relation of certain industrial groups to the agricultural groups how difficult it is to bring about an equitable distribution between all the groups. I think we all appreciate the danger of a tendency to appeal to the government or the law for an adjustment of these differences. Germany evidently sensed the importance of

some sort of a division between social, economic, and political interests when she attached an economic advisory council to the Reichstag.

We, in this country, have developed, as no other nation has, economic and social organization independent of government, and I have the feeling that if the law of supply and demand fails to adjust the differences which are sure to arise between our numerous groups we shall be able, through this genius we have for social and economic organization, to largely adjust these differences independent of government interference. The recent development of a code of business ethics by the United States Chamber of Commerce, as well as an increasing appeal to arbitration for the settlement of our differences rather than to have recourse to the courts, is hopeful evidence in this direction. "Big Business" lends itself to such adjustment because it is free from that intense personal interest incident to ownership-management.

Just as "Big Business" stabilizes production, so too it gives stability to distribution. Some thirty years ago those of us who em-

ployed travelling men at considerable expense in our sales organization felt that we faced a change in distributing methods when competitors who eliminated this expense quoted our customers very low prices by mail. Shortly after this came the consumers' catalogue houses, such as Sears, Roebuck & Company, which, going over the heads of local retail dealers, seemed the inevitable shortcut from producer to consumer. And then came the chain stores, which, with certain other advantages, seemed to be the last word. Yet each system has continued to flourish and others will follow. Which of these will prove most stable and best lend itself, therefore, to the all-important service of national wealth distribution remains to be seen. At present the chain stores seem to offer the security of a large number of units with large capital and certain elements of service which are attracting investors.

There is an occasional tendency to consolidate "Big Business" into *Bigger Business,* which seems to trend more in the direction of monopoly than in the direction of increased efficiency and stability. We have recent evidence, however, of a check being

placed upon this tendency by government action. It is a fundamental in economics that monopoly as a rule is deadening to all progress except in the case of certain natural monopolies or public utilities where monopoly is essential to efficiency and where its danger of abuse is under government control.

In conclusion I would summarize as follows:

(1) "Big Business" is in the public interest because, by largely segregating management from ownership, it places management in the position of a trustee, whose duty it is to develop that efficiency which promotes maximum production per capita and then to distribute such production equitably between the three contributing factors—capital, the workers, and the public. The workers, under this interpretation of "Big Business," are found to be responsible to both capital and the public, and having been accorded representation on the board of directors are in a position to exercise that authority which must always accompany responsibility.

(2) "Big Business" is in the public interest because through the magnitude and diver-

sity of its operations it lends itself best to the adoption of labor saving devices, mass-standardized production, and other recognized elements of efficiency.

(3) "Big Business" is in the public interest because by distributing its risks over a large number of units both in the production and the marketing of its products it attains a degree of security vitally important in conserving and distributing the national wealth.

CHAPTER III

The Proposed European Economic Union

Prefatory Note: *In October, 1926, the first Pan-European Economic Conference was held at Vienna. This non-political conference, attended by committees of representative men from nations on both sides of the water, indicated that the European nations appreciated the necessity, if not of a wide-reaching economic entente, at least of the removal of many artificial barriers that now impede economic intercourse—barriers that are the result, in great measure, of a distorted spirit of nationalism that has dominated the policy and practice of most European nations.*

Being interested in this movement, I had visited, in the winter of 1925-26, Italy, Germany, France, and Great Britain, where I studied the living conditions of the people, the general industrial situation, and the government policies which had a controlling influence over both. This paper, which grew out of my observations, was published on the editorial page of a number of the leading news-

papers in this country in March, 1926, and was widely distributed both in America and Europe. The editorial comment from the New York Times *and the Washington* Post *is reprinted herein by permission. (The former, it may be noted, is generally understood to be identified with the Democratic Party; while it is generally assumed that the latter, if not the official organ, is at least closely identified with the Republican administration.)*

In view of the numerous articles now appearing in the press regarding the proposed European economic union, and its interpretation by many as a protest against our protective tariff policy, the republication of my paper of three and a half years ago, in which I strongly recommend such a union in our own interest as well as in that of Europe, seems to me timely.

The development of this idea in Europe may be illustrated by the words of the late Herr Stresemann, German Foreign Minister, at the opening of the Hague Conference on August 6, 1929, who, speaking of the time when the states composing Germany were all divided by customs barriers now recalled with laughter, said: "I hope the time will come when in all the countries of Europe the time when customs frontiers existed between them will be recalled with the same amusement." (New York Times, *Aug. 7, 1929.)*

And M. Aristide Briand, Premier of France, in

an address before the League of Nations Assembly at Geneva on September 6, 1929: ". . . I do think that where you have a group of peoples grouped together geographically, as in Europe, there ought to exist some sort of federal link among them. They must have the means among themselves for discussing any problems which are of general interest and for establishing the general solidarity of Europe. . . . It is that connecting link which I desire to establish, and obviously the most important component of that connecting link would be an economic agreement, and I believe that in the economic sphere an agreement can be reached. . . . I shall therefore take this opportunity of asking the various representatives of the European States of this Assembly whether they will not unofficially consider and study this question in order that later, perhaps at the next Assembly, we may be in a position to translate it into reality." (New York Times, *Sept. 6, 1929.)*

The hope thus expressed by two great European leaders must be shared by all who realize the vital necessity for world peace.

The doctrine of nationalism developed in the Nineteenth Century along unfortunate lines. It came to include, along with beneficent traits which we honor as patriotism, other

traits often not only selfish but also destructive. It bred a feeling that the nation depended not only on the fullest development of its own resources but also on weakening the opportunities for development in other nations.

In this country it was well enough for Henry Clay and Daniel Webster to advocate an "American System" which should promote our economic independence. They were driven into a more intense nationalism by the depredations at the hands of France and England to which we had been exposed during the Napoleonic Wars. Even Thomas Jefferson, perhaps the leading protagonist of liberalism in his day, wrote: "we have experienced what we did not before believe, that there exist both profligacy and power enough to exclude us from the field of interchange with other nations . . .," and he assented to measures promotive of national self-sufficiency.

The policy and principles regarded by these statesmen as applicable to the special situation of the United States at that time had a curious influence on subsequent policy in Central Europe. Their operation had been

observed by Friedrich List while an exile in this country, and they made a deep impression on him. After his return to Germany he published, in 1840, his "National System of Political Economy," which was destined to exert a powerful influence on the thought of his countrymen.

Meantime, however, it had become apparent that the separate application of these principles by the innumerable little principalities then composing Central Europe was deadening to their economic welfare. A movement, therefore, began about 1828 and culminated within a relatively short period in the establishment of a customs union (*Zollverein*) which permitted free intercourse among the states who joined it. A further extension of the movement so as to include Austria, and perhaps other countries, was checked by political rivalry.

During the second half of the Nineteenth Century, a most unfortunate interpretation of nationalism came quite generally throughout the Continent to be inculcated in the schools and through the press as patriotism, and was enforced by social ostracism. Offensive rather than defensive economic national-

ism was steadily emphasized. Not so much economic independence and self-sufficiency, as, rather, economic control and self-aggrandizement became the basis of national policy. A striking characteristic was the development of the dumping of surplus production into the home markets of competitors.

The spirit of offensive rather than defensive nationalism was intensified by the Great War and it has permeated the policies of the new states which have since come into existence. When it is remembered how many new national boundaries have been drawn and, therefore, how much narrower are national markets and how much more restrictive is the application of nationalistic policies, it is clear that the need of some modern form of customs union in Europe is now more imperative than was the need for the German Zollverein a hundred years ago.

The commercial restrictions and high tariffs maintained by the old nations and adopted by the new ones are keeping producers in perilous dependence on their home markets, for these markets are too small to absorb enough of their output to keep labor and capital effectively employed. This has

lessened their production per capita and has accentuated their economic poverty.

The extension of this practice has deprived Great Britain of a large part of her continental market. It also tends to make her own unprotected market a dumping ground for the products of continental countries which they cannot exchange among themselves. As a result, Great Britain has been forced to give serious consideration to the feasibility of adopting similar trade restrictions as a measure of self-defense.

The economic well-being of a people depends entirely upon the amount of their production per capita.

Production per capita depends upon the division of labor, the adoption of labor-saving devices, the standardization of mass production, and the achievement of economy in distribution.

The distribution of standardized mass production is primarily dependent upon the existence of a wide home market.

Extensive home markets are made possible only by a customs union between states of adequate population with co-ordinate inter-

ests and a wide distribution of production among the people.

Whatever prosperity has accompanied the maintenance of a high tariff in our own country has been made possible by the enormous size of the home market, our unsurpassed abundance and variety of natural resources, our genius for organization, our wide adoption of division of labor and labor-saving devices, and our comparatively equitable distribution of the national output through high wages. To apply our tariff in the nations of Europe who have not these other advantages that we enjoy is to sacrifice economic welfare in order to gratify a dangerously narrow nationalistic spirit.

A study of Continental European economic conditions shows that nothing less than an economic entente, which would extend the limits of their markets and diversify their resources and their facilities, will enable them even approximately to follow our example. In other words, if the principal Continental countries, with or without Great Britain, would enter into a Zollverein or economic union, they might adopt for collective application a tariff policy like our own. Then,

with their large aggregate population they would be able to imitate our efficient standardized mass production. If this is done it will increase their per capita production, and if they will then distribute the output, as we do, through high wages they will increase their home market to where it will be sufficient. Such a development and such a distribution will then, in Europe as with us, sound the knell of Communism.

Arguments have appeared in the press of this country which interpret such a European entente as a menace to the development of our enterprise. In fact, however, whatever would increase the economic well-being and therefore the purchasing power of our European customers would result to our benefit. Our tariff laws profess to provide for such measure of protection to our industries as will equalize the disparity in cost of production resulting from low European wages. A raising of the wages paid in Europe to our own standard would naturally modify the application of this policy, so as to gradually increase our trade relations with other countries.

The proposed European economic union

would tend to develop a flow of economic life between European states such as exists in our United States. Had the nullification efforts of South Carolina in 1832 been successful, and had each of our states attempted to develop a self-sufficient economic policy, we would never, of course, have approached our present economic well-being. Such a European union might either embrace all of the European states or be segregated into two or more group unions having in mind the amount of population and diversity of interests which would best make for the most effective co-operation.

In view of the controversial political aspects of tariff policy it may be well to emphasize the fact that the question of protection or free trade of Europe with the rest of the world is not involved in recognizing the necessity of an economic union among the European states. The effect a European union or unions would have on our present European economic relations would be to substitute a consolidated protective tariff for the present numerous protective tariffs. It would, however, so increase the European production or economic well-being as to

greatly increase the possibilities of our export trade.

As the economic and social interests of a people are infinitely more important than their purely political interests a European economic union will certainly modify that over-developed nationalism which is the greatest menace to the world's peace. Here in America, while each state of the union is most jealous of its political entity, it makes little difference to our citizens in which state they reside because of the freedom of trade between the states. Germany was evidently deeply conscious of this difference in interests when she established a national economic council as an Advisory Board of the Reichstag.

It is to be hoped that we in the United States shall lend our support to the development of economic co-operation in Europe. We should do so, not with any view, of course, to becoming a party to such an economic entente as Europe needs, but in order to counteract the mistaken interpretation given to our own policy and to aid in promoting the general economic welfare of all nations.

An Economic Plan for Europe

(Editorial, Washington *Post,* March 20, 1926)

Robert S. Brookings, of the Institute of Economics, contributes in another column a thoughtful survey of economic conditions in Europe, with suggestions which, if approved by the nations concerned, would doubtless greatly improve their condition and conduce to the prosperity of the United States as well.

The core of his suggestion is that European nations should form an economic union for their mutual benefit by removing the barriers which interfere with the free flow of commerce among them, and then to establish a suitable general tariff applicable to the outside world.

The analogy which Mr. Brookings draws between the States of the Union and the nations of Europe, in respect of domestic and foreign commerce, makes his argument clear. There is free trade between the States, and tariff protection for all of them as against foreign competition. The standard of living is thus raised and stabilized and the per capita production increased, both by the mainten-

ance of a vast dependable home market and by the development of the principle of mass production.

Without the security of a tariff the nations of Europe are injured by the dumping of cheap foreign goods into their markets; and yet, if they all maintain high tariffs against one another they are deprived of neighboring markets and thrust back upon their own insufficient resources. They have not the enormous natural resources of America, nor is any one of them able to create a home market big enough to warrant expansion in the form of mass production.

Superficially considered, Mr. Brookings' reasoning would appear to attack the validity of the American protective tariff principle; but in reality his proposal vindicates that principle and would confer upon Europe the benefits which America has enjoyed from protection. He would make Europe, economically, a system of united states, which would enjoy free trade among themselves and develop a home market comparable with the American home market.

The erection of a protective tariff around the united states of Europe can not meet with

the opposition of any American protectionist. It is the only logical step that could be taken if a home market is to be created and maintained. The object, primarily, is to raise the standard of living and the productive capacity of the individual. Under the present plan of fencing in Europe by small and poorly endowed nations, neither the individual nor the state can develop higher standards of living. Consequently Europe as a whole will remain a poor market for American products. But with the merging of resources, energies and man power with one great free market to encourage production, the standard of living would be raised and Europeans would become great consumers of foreign products. Thus, in spite of a protective tariff around the European market, American products would be in demand and the exchange of products would be mutually beneficial to Europe and America.

In view of the political conditions in Europe, the inheritance of a benighted past, the chances of adoption of a great common economic policy seem to be very slight. Perhaps Europe must pass through further ordeals before the people will perceive the advan-

tages of economic co-operation on a continental scale. Nevertheless, it is the duty of America to contribute to the upbuilding of Europe by furnishing suggestions which have been tested here and found to be practical. It is not America's fault that the political principles underlying this republic have not been applied to Europe; Europe could have applied them a century ago if it had had the wisdom and courage to do so. Economic co-operation is almost as difficult to obtain as political confederation; but Mr. Brookings has outlined a statesmanlike proposal which, if Europe could bring itself to adopt, would work for the eventual peace and prosperity of all the nations within its confines.

Bound Up With Europe

(Editorial, New York *Times*, March 20, 1926)

Even our most purblind and determined isolationists admit that the United States has a great and continuous economic interest in Europe. Whether we keep aloof politically or not, we cannot stand apart in industry and commerce. The demonstration of this truth is now complete. If any one doubts it, he should

read the article by Mr. Robert S. Brookings printed on this page to-day. As he points out, all the indications are that the European nations are about to study and improve their trade relations. The result may not be immediately a customs union, but it is certain to lead to a great quickening of manufacture and international exchange of goods.

To such consequences the United States cannot remain indifferent. It is not that we are threatened with the loss of a profitable market, but that it is our business to discover how to retain and enlarge it. A restored and prosperous Europe means a greater purchasing power there. The question is whether we shall be prepared not only to supply our customers abroad with what they need, but to allow them to pay us in the only way possible —that is, by selling to us in order to meet their bills for what they buy from us. This will inevitably imply a modification of our tariff laws. If it be said that this is impossible, that is only another way of saying that we are not ready to do what we must do if we are going to retain and extend our foreign trade.

CHAPTER IV

The Relation of Raw Materials to Peace and Prosperity

An Address[1] before the Conference on International Problems and Relations, at Briarcliff Lodge, Briarcliff Manor, New York, May 11, 1926.

As the economic chaos of Europe continues, there seems to be a tendency for political emotions to subside and for the economic inests of the people to be given a chance to articulate, as witness the proposed economic conference of the League of Nations to be held in Geneva next October. When we call their attention to the economic results in the United States as an example of what one or more customs union groups of European states might in some degree accomplish in increasing their productivity per capita, which is the only source of economic improvement, they are apt to reply: How can you

[1] Delivered by Mr. Brookings as Presiding Officer at the Third General Session, Wednesday, May 12, 1926.

compare your unequaled natural resources of food and raw materials with any possible European aggregation! I am in hopes that the papers to be submitted this evening will throw some light on this delusion.

I have been long since convinced that our so-called advantage in food products and raw materials has been greatly overestimated. We have experienced within the past few years the influence upon the world's food markets through the development of Canada, the Argentine, and other countries, always bearing in mind the potentialities of Russia, and the scientific progress, through the use of fertilizers, in increased acreage productivity. While visiting Germany last year, I was repeatedly assured by German agriculturists that the progress they are making in reducing the cost of nitrates will enable them within a few years greatly to increase the productivity of their soil.

The normal low cost of ocean transportation, as a matter of fact, has practically equalized the cost of imported food to all those Western nations having deep-water ports. Only two or three years ago we found ourselves unable to compete with other na-

tions in the world's food markets, and the pressure of our rapidly increasing population with the enhanced value of our agricultural lands has a tendency to accentuate this situation. We usually classify the most important raw materials under the heads of textiles and minerals. As our own cotton from the basic markets of New Orleans and Galveston finds its way into foreign ports at about as low cost of transportation as to our New England mills, we seem to have no advantage over other nations in this important commodity; and as we are compelled to import largely of wool for our own consumption, we certainly have no advantage in this commodity over any European nation. The same argument applies to hides and leather. While we recognize the importance of minerals and especially credit steel as being the key to industry, here again, notwithstanding our rich Lake Superior and Alabama ore deposits and our unequaled coal supply all located some distance from the seaboard, we cannot claim to have any special advantage over the balance of the world. We are told that the Bethlehem Steel Company is developing the largest single steel plant in the world at

Baltimore, where they use nothing but imported ores, and we have only to glance at the market quotations of basic steel products on the other side of the water to be convinced of our having anything but a monopoly of this important industry.

Any survey of raw material advantage must take into consideration the growing importance of the laboratory. The recent development of artificial silk, and the announcement that similar results are assured in artificial wool, indicate the future influence in this direction. Then again we find that basic or semi-finished products like pig iron float all over the world at a minimum cost of transportation, and can be accumulated with practically no cost of storage or of fire insurance. The pig iron may then be refined without serious handicap in any country which has fuel. In other words, occupation for population is found in the refinement process rather than in the production of basic materials or semi-finished products. It would, in fact, be difficult to name a mineral of any importance that is not produced some place in the world at as low or lower cost than with us.

As we think of the needs of a people in

terms of housing, food and clothing, this leaves us only the question of housing, which by necessity is a local question, with seemingly no special advantage in any country. The consumption of our own timber supply has now established our lowest lumber market on the Pacific Coast, and the cost of transporting this lumber by water to our centers of largest demand, or Eastern ports, is practically the same as to European ports where we meet the competition of Canada, Norway, Sweden, and Russia.

In fact, a simple glance at the cost of living in all of the European countries as compared with our own, even after taking into consideration our higher wage, is sufficient evidence that we enjoy no basic or fundamental advantage in housing, food and clothing. If Europe would follow our example of industrial efficiency by adopting labor-saving devices and standardized mass production and our economic democracy of a relatively high wage through which to distribute equitably among the workers the resulting increased production per capita, they would soon find their economic well-being greatly improved.

Finally, if we could only form the habit of

visualizing international trade as analogous to double-entry bookkeeping, where each dollar of import must show a corresponding dollar of export (either in commodities, services, or credits which we discuss as visible and invisible items), it would probably save the world a lot of waste resulting from a lack of clear thinking. The seeming wide discrepancy which exists at times between our imports and exports is balanced by such invisible items as our expenditures in foreign travel, alien homes remittances, services of various kinds such as insurance and transportation, and the always easy adjustment of credits through international loans. Eventually our foreign loans will either be consumed in travel and other invisible items or come back to us directly or indirectly as commodities, which constitute, after all, the only foreign source of our increased national wealth.

Round Table Remarks

Mr. Robert S. Brookings: The interesting papers which have been submitted and more than an hour's discussion seem to have

elicited nothing more than that while disarmament may save the nations a waste of money now expended on armament, the future implements of war trend in the direction of airplanes and chemicals and are so inseparably associated with necessary economic developments that it appears practically impossible to make disarmament an important factor in war prevention. Usually when we discuss an evil with a view to its elimination, we go directly to its source. Yet we have not heard a word this morning regarding the source of armament which is the overdevelopment of nationalism. We honor that love of country which we call patriotism, but we have witnessed in Europe the development of this sentiment until it has taken the form of an obsession which assumes that love of one's country necessitates the hatred of other countries. Hence we have armaments for so-called self-defense which have as frequently been used for selfish offensive. Thus patriotic emotions have blinded the people of Europe to the overwhelming importance of their economic well-being, which is dependent upon co-operation through the formation of one or more customs unions. It was the German Zoll-

verein which nearly a hundred years ago broke down the antagonisms of the German principalities and consolidated them into one people with an enormous improvement in their economic well-being. That the economic well-being of a people is overwhelmingly more important than their purely political interests, witness the condition in our own country. While each of our states is most jealous of its political entity, it makes little difference to us in which state we live because free trade between the states, creating a free flow of economic life, utterly subordinates state patriotism. The way to disarm is to remove the incentive to armaments through one or more economic United States of Europe.[1]

[1] See "The Proposed European Economic Union," pp. 24-39.

CHAPTER V

Trade Relations and Agriculture

An article which appeared in the Washington *Post* in October, 1926

Prefatory Note: *In the pamphlet edition of the following article, I included, as I do here, the editorial comment which appeared in the Washington* Post, *October 24, 1926, in order to answer the latter's objection to taking the tariff out of politics. Of course, as the tariff must always be passed upon by Congress, the party in power must assume all responsibility, so the tariff can never be taken entirely out of politics.*

What I intended to emphasize was that Congress should be relieved of the present propaganda and lobbying methods by which special industrial interests seek special privileges. Notwithstanding the so-called public hearings, there is seldom more than one side of the problem presented.

When we analyze the power conferred by Congress upon the Interstate Commerce Commission we wonder why the vitally important Tariff Com-

mission is not given more power and why it is not required to take the initiative in assembling all the information regarding tariff schedules and other economic interests involved. If this were done, the Commission might submit to the Congress recommendations which would enable us to develop a sound national tariff policy. Special interests could continue to be heard at the congressional public hearings, but they would face scientifically-ascertained facts.

Henry Ford tells us that he has demonstrated an enormously increased agricultural production per capita by cultivating land in large units, with labor- and time-saving devices and also by utilizing in nearby industrial plants the labor thus released. It is possible that one answer to the agricultural problem may be the same as that which has solved the industrial problem—"Big Business."[1]

WHEN we discuss the regulation of our international commercial relations we immediately drift, of course, into the influence or effect of our tariff schedules and immigration policies upon the numerous industrial or economic groups which constitute our population. The purpose of this paper is to call

[1] See "Agricultural Corporations, The Conversion of Agriculture into a Prosperous Industry," pp. 79-98.

attention to the fact that within the short period of a decade or two we have developed in this country a change in the relation of capital to labor which enormously broadens the influence and effects of our tariff and immigration laws. It clearly is desirable, therefore, that we should subject our existing regulations to renewed scrutiny.

The development of the economic efficiency of this country which has resulted in what is known as "Big Business," or large corporations whose securities are distributed widely among investors, has so divorced ownership from management as to distinguish more clearly between the contributions which capital, management, labor and the public each make to production. As a result we have developed a relation between capital and labor under which capital is recognized as a commodity entitled to such compensation for its use, risk considered, as the money market may determine from time to time; just as other commodities find their value in the market price regulated by supply and demand.

Under this development it has become virtually a national policy to favor a wage suffi-

ciently higher than the needs of the workers to enable them to accumulate a reserve which gradually is converting the great mass of our people into part owners of the nation's industries, or what might be called the capitalistic class.

By many corporations the thrift habit of the people is being promoted by various schemes assisting the worker to become a stockholder. It must be obvious that this relation of capital to labor could not be maintained if we permitted the unlimited flow of either labor or labor's products into our country. Hence we have the tariff and immigration laws. It is, however, practically impossible for us, with our machinery of government as at present developed, to formulate tariff schedules which do not seem unwisely to favor certain interests at the expense of certain other interests.

Even if we had before us all the facts which would enable us to develop a comprehensive national policy securing as nearly as possible equality of opportunity for all of our numerous working groups, we should still have a difficult problem to solve. But when the tariff is made the football of politics, as at

present, it is not strange that it has become our most controversial subject.

Considering the vital importance of wisely solving the tariff problem the Tariff Commission should have, in my opinion, advisory supervision over all tariff matters and should function as a scientific body as independent of political parties as is the Supreme Court of the United States. The commission should be so abundantly financed as to enable it to assemble all the information essential to the development of a comprehensive national policy and it should make recommendations to Congress as to tariff schedules. Along with these recommendations should be presented the facts on which they are based and thus furnish such evidence as will develop an intelligent public opinion.

The tariff controversy recently has centered into a discussion which more especially involves the relation of the agricultural group to the manufacturing, transportation, mining and numerous other groups. It has been suggested that the way to equalize certain inequalities developed by the tariff is for the government to subsidize those inter-

ests which are apparently discriminated against. It is believed by most economists, however, that any form of subsidy which places a direct premium on the production of an article is unsound fundamentally, as it ignores certain basic laws of supply and demand and acts as an impediment to the development of efficiency. It also opens a door to similar appeals without number. The solution is not in such suggested legislation, but will be found in placing the tariff on a scientific basis.

The Institute of Economics has published a number of books dealing with the making of a tariff and, more specifically, with the present effect or influence of the tariff on certain important agricultural products. The institute also has in preparation for the press at present other important books submitting facts which I feel sure will assist in developing a sound public opinion on this controversial question.

We should be extremely cautious in attempting any further legislation bearing on the tariff, subsidies, the immigration laws, and other regulation of our commercial relations, at home and abroad, until we have

more reliable facts on which to develop a sound national policy.

Referring again to the controversy between agriculture and the other groups the position taken by certain sponsors for agriculture may be thus summarized: As some portion of practically everything the farmer produces is exported, the export price or foreign market naturally fixes the price the farmer receives at home, thus nullifying any attempted protection.

The farmer complains that a tariff is unjust which increases the cost of things which he must buy by depriving him of the opportunity to purchase them in the lower markets where his selling price is fixed. He argues that the tariff primarily is intended to increase the profits of the manufacturer and the wages of the industrial worker at his expense.

To this sponsors for the manufacturing industry reply by referring to the Treasury Department records for the five years from 1919 to 1923, inclusive, which show that the manufacturing and other corporations of the country have made during that period the minimum of profit essential to the nation's

economic well-being. A summary of these records appeared in a publication of the Academy of Political Science, October, 1925. They also argue that the industrial worker, through his increased wage has enormously enlarged his consumption of agricultural products to the great advantage of the farmer, who is thus enabled to work the farm to its full capacity.

Those who defend the tariff insist the farmer has been most generously treated in the schedule which protects his products. While admitting in some cases the tariff on farm products has not been very effective in raising prices, they maintain in other cases it has been quite as effective as in manufacturing industries.

Quoting from the Commerce Yearbook of 1925, page 158, attention is called to the fact our total agricultural production for 1924 roughly was $12,000,000,000, while our agricultural exports for the same year were roughly, $2,000,000,000. Of this $2,000,000,000, cotton was a little less than $1,000,000,000 and cereals a little less than $500,000,000, leaving the balance of agricultural exports, consisting of innumerable articles, aggregat-

ing only a little over $500,000,000 or roughly 4 or 5 per cent of our total agricultural production—with our tobacco exports making up one third of this 4 or 5 per cent.

Six billion, or one half of this entire production, is listed under the head of animal products, of which nearly $4,000,000,000, or practically two thirds are mentioned as dairy and poultry products. Fruits and vegetables aggregate nearly $2,000,000,000. It is said practically none of this $8,000,000,000, or two thirds of our agricultural products, is primarily produced for export. It is not only almost entirely consumed at home, but many of the same articles, aggregating $947,000,000, are imported annually. Of these, wool, hides, sugar, &c., are the most important. One of the largest items of export is fruit, amounting roughly to $100,000,000, and it is believed if this and other items of export are investigated it will be found that the extensive foreign demand has been created as a result of the superiority of our products. Such demand, however, it is argued, can not be said to fix our home price.

Endeavoring to show that the farmer has really not been as badly treated as he be-

lieves, the defender of the tariff insists if the budget of the farmer's purchases were analyzed it would be found the price of a very small part of his purchases has been influenced by the tariff. It is contended that those articles which the farmer must buy—such as agricultural implements, binder twine and cotton bagging—are all on the free list.

The government records show our annual manufacturing production to be little over $38,000,000,000, of which about $2,700,000,000 is exported. It further is contended that an examination of our manufactured exports would indicate many of the articles protected have, through our efficiency in production been so reduced in price as to make their exportation possible. It is obvious protection has not increased the home market price of such articles. For example, by reason of the efficiency of the shoe industry, supported by free hides, the American farmer is purchasing his shoes at as low a price as similar shoes are sold abroad.

The tariff defender winds up his argument with the statement that the trouble with the farmer has been that both in the efficiency of production and distribution he has failed to

keep pace with the manufacturing industries of the country; that his recent financial embarrassment is the result of his inability to adjust himself, as the manufacturer has, to post-war conditions, and of his speculating in land at the abnormal price developed by the war.

In answering these criticisms it is pointed out that while the manufacturer can fluctuate his production on short notice to adjust it to supply and demand, the farmer can make his adjustments only once a year and even then must have some regard for rotation of crops, and that he can not foresee the influence of weather conditions on his production. He is compelled, therefore, largely to gamble on results.

Under the law of supply and demand, however, it is admitted this gamble may average a normal return over a period of years. For example, 1923 showed a world surplus of wheat and we were compelled to sell our crop that year at 92 cents per bushel, a price which was less than the cost of production. Only a year later, in 1924, there was a world shortage which enabled us to sell our crop at $1.30 per bushel. The difficulty of storing food

products over a long period of time adds to this instability of world market prices.

Thus the arguments of the tariff defenders are met by per contra arguments of those who criticize its effects upon agriculture. Until more facts are presented the controversy will continue to hold first place in the political arena. Nothing more clearly could demonstrate the need for additional trustworthy information.

It is suggested the menace of the unknown quantities which the farmer is compelled to face could be mitigated by a more intelligent application of risk distribution through a greater diversity of crops. This is especially true of the cotton planter. Ignoring the various warnings of the Department of Agriculture the cotton planter has continued to buy his hog meat and grain and has so increased his cotton crop as to produce in excess of the world's needs, with the present disastrous market results. The economic inequalities, including employment, which involve practically all of our workers in some form of risk, possibly could be absorbed by a system of insurance, national in scope and in supervision.

Our English cousins seem to have widened the scope of insurance so that it covers nearly every eventuality. At present our apple growers insure their crops against hail and other damage and our industrial workers enjoy the compulsory insurance under the laws of some of our States which protect them against the loss of their labor products through industrial accident.

The system of protecting everyone from threatening losses by means of very small contributions from a very large number of persons is capable of much greater extension. It seems quite probable a committee of expert insurance actuaries would be able to devise a system of insurance, national in its scope and with government supervision. This supervision could be similar to that provided by our national banking laws. Such a system might absorb many of the economic inequalities of our national life.

In conclusion I wish to place particular emphasis on the following points:

(1) The workers, including the tenant farm group, now pay, risk considered, a fair price, either as interest, dividends, or rent, for capital which they use in production. In

order to enable them to obtain production of maximum value per capita, and its equitable distribution among all the workers, the government has protected them against the free influx of labor and goods from other countries by tariff and immigration laws.

(2) In the schedules and other rules provided in these laws we must see, through a strictly scientific study of the problem, that as nearly as possible, an equal opportunity for all the numerous groups of workers be maintained.

(3) To accomplish this we must have the facts bearing on every phase of the problem assembled and published by an absolutely non-partisan scientific body.

(4) Not the least important phase of the problem is how to adjust our foreign relations so as to enable us to import sufficient commodities and services to satisfy our needs and desires and liquidate the debts due us as a creditor nation. This, of course, involves our exporting commodities, services and gold or credits in amounts equal to our imports.

As our tariff is professedly made only to equalize our cost of production with the production cost of low-wage countries, it follows

logically that as a higher wage develops in other countries our tariff barrier will automatically disappear.

Finally I can only repeat that it is my earnest conviction that the changed relation between capital and labor in this country represents an advance in civilization which is destined to have its influence upon the balance of the world and that it should be considered as the keystone to the regulation of our commercial relations both at home and abroad.

Two Fundamental Laws

Editorial—Washington *Post*—October 24, 1926

The scope and effect of the tariff and immigration laws have been broadened by the evolution of the relations between capital and labor in the United States, in the opinion of Robert S. Brookings, president of the Institute of Economics. Mr. Brookings elaborates his views in an article appearing elsewhere in *The Post*. While his article was written without reference to the political questions raised by the recently issued manifesto of international industrialists and bankers, it

is a timely contribution to the general subject and will doubtless attract the attention of those who support the protective tariff, as well as those who hold that protection is no longer necessary or advisable.

The tariff is intended primarily to protect American industry as well as to raise revenue. The restrictive immigration law is intended to protect American labor as well as to enable American blood to recover and maintain its supremacy in the United States. The operation of these laws is affected by the relations of labor and capital; and those relations are of course affected by the laws. Both laws are necessary, because it would be idle to interpose a barrier against foreign goods if foreign labor could flood this country, and equally idle to exclude foreign labor if goods made abroad by that labor were admitted free.

If it can be shown that the tariff and immigration laws have impaired the good relations that should exist between labor and capital, a substantial reason for amendment of the laws is set up. But if capital and labor are encouraged in their co-operation by reason of these laws, the wisdom of their enact-

ment is doubly manifested; for the efficacy of the laws in other respects—that is, in the raising of revenue and in the purification of the American blood stream—is indisputable.

That capital and labor are mutually benefited by these laws is demonstrated by the present industrial situation. Mr. Brookings goes further, and finds that the improved relations of capital and labor have broadened the effect of the laws. The principle of protection of industry and labor by tariff and immigration laws is now an integral factor in the co-operation of capital and labor. It is a potent if not dominant influence in the preservation of industrial peace as well as in the promotion of the general welfare.

Viewing the tariff as an economist, Mr. Brookings holds that it should be revised only by experts, solely for economic reasons, and without regard to politics. This course can not be pursued. The tariff can not be separated from politics and it should not be separated. The party that happens to be in control of the government must have full control, if it is to be held responsible, and it can not safely or properly delegate to any one the revision of the tariff. Attempts to delegate

very limited authority have resulted in confusion and failure.

Even if the protective principle were established as a national policy beyond the reach of political parties, the question would arise as to whether revisions from time to time were in harmony with the principle, and political parties would differ on the question.

Besides, the relation of the tariff to revenue is such that the party that happens to be in power would be compelled to exercise authority over tariff policies in order to administer the revenues according to its own ideas. The present tariff is bringing in revenue at the rate of $575,000,000 a year. The tax laws can not be changed without taking tariff revenue into account.

CHAPTER VI

Overproduction:

IN ITS RELATION TO OUR ANTI-TRUST, IMMIGRATION, AND PROTECTIVE TARIFF LAWS

"*. . . Mr. Brookings presents a logical and forceful argument well worth consideration. Farm relief can not be had through price fixing, nor can farm conditions be improved through tampering with the tariff or immigration laws. Agriculture is an industry no less than steel or transportation, amenable to the same natural laws, and affected to no greater or less degree by legislation. Agriculture has it in its power to solve its own problems. Enact special legislation or change the existing laws, and all other industry will be adversely affected. The warning is clear.*"

—Editorial, *The Washington Post.*
October 31, 1927.

We see almost every day in the press statements that the farm depression is the result

of the production in excess of home demand of certain specific agricultural commodities, whose producers are thus compelled to accept a world market price and deprived of the protection which the tariff would otherwise afford. Yet, in the same breath, the protective tariff is held responsible for our agricultural difficulties, or for the depreciated purchasing power of several agricultural products in this as compared with some other period, and the claim is made that the profits of industry and the wages of the industrial worker have been increased at the expense of the farmer and the farm laborer. It is this confusion of the two questions with which the present article deals.

Why should the farmer be protected from the penalty of an overproduction of wheat growing out of the cultivation of an excessive acreage any more than the lumber manufacturers of the Pacific coast should be protected from the immense losses they have recently sustained by opening up an excessive amount of timber land and overproducing the demand, both domestic and foreign, for lumber? Some years ago, in association with a group of the best informed and most pros-

perous lumber manufacturers of the northwest, I invested in Pacific coast timber lands. Through a process of overproduction we were compelled, by the large loss caused by the excess of cost of production over market price, to shut down our plant, sell off our machinery, and write off a loss of several million dollars. It would be equally logical for us to have demanded that the government take over our product and fix a domestic price sufficiently high to have paid us a reasonable return in our investment, even after the government should have charged us with any loss sustained in the dumping of our surplus upon foreign markets.

The sufferers from overproduction are not limited to the lumber industry. The indisputable evidence of the corporation returns made under oath to the Bureau of Internal Revenue shows that in every year from 35 to 50 per cent of corporations lose money. For the years 1919 to 1923 inclusive, the corporations reporting no income had an average annual loss of approximately $2,200,000,000; eliminating the year 1919, which was an unusually profitable year, the other four years show an average annual loss of over $2,500,-

000,000. Dun's and Bradstreet's reports show actual failures for these years ranging from 0.29 per cent to 1.08 per cent of the total number of firms in business, with the liabilities ranging from $113,000,000 in 1919 to $627,-000,000 in 1921. These large losses could, of course, only occur through inefficiency or maladjustment in production and distribution, or overproduction, or all of these, just as do the losses in wheat, cotton, and other lines of agricultural production.

Even the Esch-Cummins Act, which, by reason of the public service rendered by the railroads, authorizes a charge for transportation which will net the railroads a return of six per cent on the reasonable value of their property, does not protect us against the penalty of overproduction. For example, in association with well known railroad men, I participated in the building of the Missouri and North Arkansas Railroad, which, owing to the fact that its cost was far in excess of the demand for its services, failed to earn any return on its cost, so that it was forced into the hands of a receiver, and the value of its securities wiped out. Several million dollars were lost in this enterprise. The lack

of natural resources along the line of the road made it impossible for the population to pay a financial return on the investment, and the builders of the road had no recourse but to lose their money.

The losses resulting from overproduction are enormous, but they are the price we pay for the maintenance of freedom. For obviously freedom cannot mean either that capital shall receive a return or that labor shall be paid a living and saving wage for rendering services which are already being rendered in abundance.

Moreover, the pressure of overproduction is the greatest stimulus to efficiency. In the production of every commodity, there is to be found every degree of efficiency, from the least to the greatest. When the supply is less than the demand, the least efficient producer is kept alive by a high price, and the most efficient profits so much as to put pressure upon increased production. This procedure naturally ends in overproduction and a price so low that the least efficient producer ceases to exist and the most efficient devotes his energies to increased efficiency in order to recoup his lessened profits. Increase in

population, and higher standards of living in the course of time bring about a demand in excess of production once more, and the same cycle is repeated.

The wide fluctuations which formerly came from this process have been greatly lessened in this country by the policies of big business, an outstanding example of which is the policy pursued by the United States Steel Corporation. Big business is interested first in stability, and avoids taking advantage of a short supply to secure an excess profit—a procedure which, they recognize, would simply bring increased competition into existence, and, in the last analysis, cost more than it would earn.

It would be easy to prevent overproduction in many lines of business, if public policy permitted producers to combine to limit production. However, it is at least as important to protect consumers from extortion as it is to protect producers from the results of overproduction. Our government has, therefore, by both the state and national anti-trust laws, insisted that no agreements between producers shall be made which so limit supply as to make possible the extortion of an unfair

value from the consumer. It is difficult to draw the line between legitimate activities designed to prevent overproduction and those agreements which destroy equality of opportunity and aim at an unfair enhancement of price.

Our earlier anti-trust legislation was very drastic and in some of its applications tended to prevent wholesome efforts at stabilization. We may mention two ways in which we have succeeded in introducing a more liberal policy without opening the door to exploitation of the consumer. The first relates to exports. By the passage of the Webb-Pomerene Act the government has said that both agricultural and industrial interests may enter into combinations or agreements to sell their surplus products in foreign markets at any price they please.

The second wholesome modification of the rigidity of our anti-trust laws relates to the exchange of information. The activities of the Departments of Agriculture and Commerce in collecting and publishing corp reports, and statistics of production, stocks, and sales, aid producers to adjust supply to demand without opening the door to extor-

tionate restriction of output. The decisions of the Supreme Court in the maple flooring and cement cases [1] which permit producers to exchange information, provided it is given also to the public, point in the same direction. Overproduction, due to ignorance and uncoordinated planning, is to be avoided, and supply is to be adjusted to demand. Production, however, is not to be curtailed by agreement with a view to exacting an unfair price.

Farther than this we can hardly go in protecting either agriculture or industry from the risk of overproduction. Both the Webb-Pomerene Act and the program of extensive exchange of information are available for the benefit of agriculture as well as industry. Price fixing in the interest of the producer is a subsidy to overproduction, which simply increases the evil and defeats the whole purpose of the anti-trust laws.

The most casual study of the history of the rise of civilization reveals the following two principal lines of evolution: (1) A progres-

[1] Maple Flooring Manufacturers Assn. et al *v.* United States. Decided June 1, 1925.

Cement Manufacturers Protective Assn. et al *v.* United States. Decided June 1, 1925.

sive political emancipation by which the individual emerged from personal slavery and gradually advanced toward the climax of civil liberty, at the same time participating in the creation of political democracy through representative government; (2) an economic retrogression by which the masses passed out of various forms of semi-independence into the autocracy of capital, which, for the worker, meant economic slavery. The medieval handicraft workers enjoyed a period of comparative economic freedom. The factory system of production required such large capital investment as to inaugurate an autocracy of capital. While the change from handicraft to mechanical processes opened industrially productive occupation to vast numbers of unskilled workers, it at the same time practically placed all the industrial workers under capitalistic control, and reduced their services to the position of a commodity, to be purchased at the market price, or at as low a price as possible.

The individual could no longer work at home or in a limited guild, because the mechanical processes of production made him entirely dependent upon that aggregation of

capital represented by the factory plant. In the exercise of their right of property, the manufacturers seemed to be entirely justified in saying: "I will pay so much and no more for your labor. You need not work for me unless you choose. If I think it is more profitable for me to close my factory than to operate it at the price of labor which you demand, that is my right." This has been, and is now, the recognized right of property in its relation to the workers all over the world. It is the chief cause of the development among the great mass of the people of socialism, bolshevism or communism, and the principal basis of the more conservative protest of labor unions.

The next logical step, and the one which we seem to be taking in this country, is to emancipate economically the great mass of workers from this acceptance of autocratic capital power, which in its operations is neither economically sound nor ethical. The owners of capital must say: "We recognize that in every form of production capital is worth no more and no less, *risk considered,* than its market value as established daily by our stock exchanges." As capital becomes

a commodity, paid for at a rate fixed by market competition, labor regains its freedom to exploit its own full possibilities.

The most complete recognition of the commodity character of capital comes in connecnection with that all-important factor of production—land. Under the system of tenancy, the tenant farmer comes into absolute possession of the facilities for production. In industry and transportation, however, the only real approach, on a large scale, to a system of limited property rights, coupled with economic freedom for the worker, is found in the United States. The restriction of immigration, the protective tariff, the development of big business, and the wide distribution of corporate securities among investors have combined to produce in this country what we call a "saving wage" by which we mean a wage sufficient to provide for at least such savings as are necessary to protect the worker and his family from the menaces of unemployment, sickness, old age, and death. The prevalence of such a wage scale frees the worker from the pressure of cutthroat competitive selling of his labor and assures him economic independence. Thus we have established an

economic democracy which scales with our political democracy—a state which does not exist in any other country.

I have discussed elsewhere the part played in this achievement by the wide distribution of ownership of big business.[2] Here it is my purpose to emphasize the importance of our immigration and protective tariff laws in lifting the laborer above the level of the economic serf. This improvement in labor's position has been no accident, but a matter of deliberate public policy. While the importance of the superior natural resources of the United States must not be overlooked, it is inconceivable that we could have arrived at this sound, ethical, and economic relation of capital to labor which now exists if we had continued to allow the free flow into this country either of cheap labor or of the products of cheap labor. Both our immigration and protective tariff laws have sought to improve the economic position of all classes of labor.

The direct influence of the immigration restriction in preventing the undercutting which accompanies an oversupplied labor market

[2] Robert S. Brookings, "Industrial Ownership," The Macmillan Company, 1925.

may be seen in the stability of wages at a high level in the face of falling prices since 1920.

It is of interest to note that not only has the standard of living been rapidly increasing in the United States, but that the increase in wages during the past 45 years has been roughly proportional in agriculture, in industry, and in transportation. Reports of the Department of Agriculture and the Bureau of the Census covering a period of 45 years show that the compensation of the farm laborer in the United States has grown from $11.70 per month, with board, to $33.34 per month, with board, in 1924; while the annual earnings of wage earners in manufacturing have grown from $439 to $1,256 during the same period, and in transportation from $560 to $1,560.

The operation, *within the nation,* of the basic laws of supply and demand, not only adjusts the values of innumerable commodities to each other, but almost automatically insures an equality of opportunity to labor in such widely different occupations as industry, transportation, and agriculture.

CHAPTER VII

AGRICULTURAL CORPORATIONS

The Conversion of Agriculture into a Prosperous Industry

and

SOCIALIZING THE SOULLESS CORPORATION

A Sequel to Agricultural Corporations

Prefatory Note: *The first of the two following companion articles, "Agricultural Corporations" was published in full by such widely read newspapers as the New York* Herald-Tribune (*Republican*), *the New York* World (*Democratic*), *and the* United States Daily (*national and non-partisan*), *of Washington in September, 1928.*

Owing, however, to its length, it was so abbreviated by other publications as to appear to underestimate the constantly growing efficiency of the average-sized farm and to overestimate the importance of large acreage for efficient production. The omissions caused the paper to fail properly to emphasize the outstanding need, above all, for better business management on the farm, both in production and distribution. I therefore appended (in

the pamphlet edition) the additional article, "Socializing the Soulless Corporation," for the purpose of showing how the corporation can function in a chain of farms, just as it does in a chain of stores, with the small units operating independently, but efficiently, under some form of central management.

While the much-discussed development of agricultural co-operative associations will no doubt render an important service, any system of production and distribution which leaves the individual small farmer the owner of his farm, with personal freedom of operation, can never develop anything like the efficiency of the modern corporation. Through the corporation the farmer can receive a good bond for the value of his farm, and in addition, by working under the direction of a centralized authority, may enjoy not only a liberal wage for his services, but every opportunity for personal development and advancement.

This also affords me the opportunity of calling attention to the great service which the socialized corporation is rendering the public as practically the only method of distributing the national wealth among all the people. Such distribution is the result of our saving wage, which has so raised the standard of living as to create the large home market, which is primarily responsible for our economic efficiency.

1. Agricultural Corporations

It is universally conceded that a large proportion of our farmers (especially those cultivating the average acreage) have not in recent years shared in the general prosperity of the country; and the agricultural problem has, in consequence, become our foremost political issue. Various legislative remedies have been proposed, most of which are probably unconstitutional or are at least contrary to the spirit of our government. The purpose of this article is to suggest some sound, practical, businesslike method of placing agriculture on the same basis of efficiency and prosperity as our manufacturing industries.

Such demonstrations as those by Henry Ford in Michigan and Thomas Campbell in Montana prove positively that large profits can be made in agriculture when farming enterprises are reorganized under up-to-date business methods.

Campbell's experience may be presented first.[1] An engineer by training, he began growing wheat in the Crow Indian Reservations

[1] See Robert Stewart, "The Farming Business," *Atlantic Monthly,* June, 1928, pp. 833-4.

See also *Time,* January 9, 1928, p. 12.

near Hardin, Montana (leased to him during the war by the U. S. Department of Interior), with the backing of J. P. Morgan and other bankers. In 1921 he formed the Campbell Farming Corporation, an enterprise organized like a gigantic engineering project, which operates 95,000 acres, produces 500,000 bushels of wheat a year from half this acreage (the other half lying fallow), and is probably the largest single wheat-growing unit in the world. It has been so successful at producing wheat in the calculated manner in which industrial corporations turn out other commodities that not only have substantial profits resulted, but remarkably high wages have been paid the laborers during the period of low prices. The Corporation has even gone sc far as to issue twenty per cent. of its shares of stock as a bonus to the skilled labor on the farm.

Mr. Campbell has concluded from his own experiment that "the biggest industrial opportunity today is in agriculture," and predicts that in less than fifty years we will have a U. S. Farming Corporation larger than the U. S. Steel Corporation.

The Assistant Secretary of Agriculture,

R. W. Dunlap, in a statement issued June 20, 1928, says: "A factor which may not be the best thing for country life, but is nevertheless coming to pass, is the very much enlarged farming operation. It has been demonstrated in many instances that the larger units can be operated much more efficiently than the smaller ones. We find that corporations are being formed and large areas of land are being acquired for the purpose of farming on an extensive scale. One such corporation I am acquainted with recently declared a thirty per cent dividend and had money left in the treasury. This is as good a dividend as is sometimes paid by some of the industrial and financial corporations about which we often complain."

However, numerous examples are available to show the potential efficiency of the small farm. Robert Stewart relates, among others, the experiences of two small farmers in a good farming section of Indiana: "They were neighbors, their farms being separated only by a fence. The soil was identical and their opportunity should have been the same. They owned the same size farms, eighty acres, had the same soil, rainfall, market prices and other

conditions. They differed only in their managerial ability. Yet, at the end of the year, one man, Earl Foster, found that his farm had paid him $1,676, while the other man, John Peterson, found that he was in debt $198. The difference in the returns of these two small farms, $1,874, was due entirely to the exercise of good business management on the part of Foster. . . ."[2]

But the most illuminating analysis of the agricultural situation which I have read is the book, "Harvey Baum: A Study of the Agricultural Revolution," by Edward S. Mead, of the University of Pennsylvania, andBernhard Ostrolenk, Director of the National Farm School, Doylestown, Pa., published by the University of Pennsylvania Press in July, 1928. The following is a brief review:

The authors study each phase of the farm problem, dealing with it in the greatest detail, sustained by copious quotations from the reports of the U. S. Department of Agriculture. They find that increasing numbers of farmers all over the country are developing a high degree of efficiency through following the advice and teachings of the agricultural col-

[2] *Atlantic Monthly*, June, 1928, p. 835.

leges and experiment stations in such matters as selection of crop seed, the proper cultivation and fertilization of the soil, the selection and scientific feeding of live stock, etc., etc. Such farmers have made large profits under the recent adverse market conditions; whereas the large proportion of farmers, submerged in the traditions of the obsolete methods of their fathers, continue to produce the so-called "surplus" at a cost which, while it barely enables them to keep body and soul together, forms the basis of their demand for the raising of agricultural prices.

In speculating as to why the rapid process of elimination, which in industry is going on every day through the failure of large numbers of business organizations (reported by Dun and Bradstreet), does not apply in the same degree to the inefficient farmer, the authors find that, because he pays no house rent and raises many of the necessities of life, he is able simply to "hang on."

In concluding, they propound this problem: If the present farm acreage were cultivated efficiently, it would more than double our agricultural production; and then what would be-

come of the market price and the farm industry? The answer would seem to be that if we had under cultivation twice as much land as justified by sound business methods, some of it might revert to the government for reforestation, or be carried fallow, as Campbell, the great wheat grower, yearly carries half his acreage. Professor Mead submits tables showing that, in order to comply with the demands of the conference of Mid-West farm leaders at Des Moines, Iowa, on July 20, 1926,[3] and to insure the practical working of the McNary-Haugen Bill, or in order to guarantee the average present farmer the necessary return for his capital and labor, the consuming population would be compelled to add six billion dollars to the annual cost of its living budget—an increase of $250 per family. He asks: Will the eighty per cent of our population which has no direct interest in agriculture submit to this special legislation? He further calls attention to the fact that while so-called "farm relief" might temporarily benefit all farm producers, it would eventually so increase production as simply to has-

[3] Mead and Ostrolenk, "A Study of the Agricultural Revolution," p. 118.

ten the elimination of the inefficient farmers.[4] And in the finishing argument, he says: "No Congress, no matter how timid and terrified it may be by the spectre of an agricultural revolt; no matter how pusillanimous and timeserving may be its membership, unless assured in advance of a Presidential veto, will vote to place a burden of six billion dollars annual increase in the cost of living upon the budget of the American consumer."

While this seems a drastic criticism of the recent Congress, which passed the McNary-Haugen Bill, it is hardly more severe than the President's message which accompanied its veto. To quote only a few of his many objections: "It embodies a formidable array of perils for agriculture which are all the more menacing because of their being obscured in a maze of ponderously futile bureaucratic paraphernalia. . . . It is still as repugnant as ever to the spirit of our institutions, both political and commercial. . . . These provisions [for price-fixing] would disappoint the farmer by naively implying that the law of supply and demand can thus be legislatively distorted in his favor. Economic history is

[4] *Ibid.*, pp. 141-144.

filled with the evidences of the ghastly futility of such attempts. Fiat prices match the folly of fiat money. . . . It would undermine individual initiative, place a premium upon evasion and dishonesty, and poison the very well-springs of our national spirit of providing abundant rewards for thrift and for open competitive effort. . . . This is indeed an extraordinary process of economic reasoning, if such it could be called. Certainly it is a flagrant case of direct, insidious attack upon our whole agricultural and industrial strength. . . ."

The whole message should be read and pondered by everyone who desires to form an intelligent judgment on this great issue, as it is a perfect analysis of the innumerable evils which would accompany the administration of such a measure as the McNary-Haugen Bill.

The President's veto was sustained by the larger representation of the American people in the Democratic and Republican national conventions, both of which—notwithstanding the great pressure brought to bear by the farm bloc—positively declined to endorse the McNary-Haugen Bill in their platforms.

My own opinion is that the best means of hastening the present slow and harrowing process of agricultural regeneration is by the formation of agricultural corporations which will accomplish in organization and management what big business has accomplished for industry. Following the method pursued in the organization of the U. S. Steel Corporation, the most inefficient farms, which as now operated are worth less than nothing, would be paid for in safe bonds of the "Agricultural Corporation" with some regard for their *potential* value; and the most efficient farms would receive their full present value in the same bonds, and their efficient managers become the department managers of the corporation. As these corporations would combine all the advantages claimed by Campbell and Ford for large unit farming, with the additional advantage in methods of efficient management shown by Professor Mead, I believe they would greatly reduce even the present low cost of production of the most efficient farmers; and that their securities would eventually become one of the most extensive and safest forms of investment for our people, converting the present immense and unprofit-

able values tied up in farm lands and equipment into an additional means of distributing the national wealth among all the people. While I am personally opposed to any and all income tax exemptions on bonds, if the Government wishes to facilitate such a reorganization of agriculture, it could exempt agricultural corporation bonds, as it does land bank bonds, from income tax, under similar restrictions for insuring security.

I have deferred discussing Henry Ford's demonstration because it introduces another factor in economic efficiency which bears closely upon the farmer's problem—*i. e.*, bringing the producer and consumer into closer relationship, and avoiding the present enormous cost in transportation of farm products to and distribution in the large cities, to say nothing of improving the social and hygienic conditions under which the workers live. Toward these ends, Henry Ford has accomplished a great deal in removing many operations of the vast Ford industries from the city to small towns. At these decentralized plants, he has successfully co-ordinated farm and factory labor, thus assisting the small scale farmer by leaving him free for the short

amount of time efficient farming with time-saving machinery actually requires, and giving him employment in the factory during the remainder of the year. Speaking of the experiments of his "village industries" at Northville, where he turned an old mill into a valve shop, and elsewhere, he says: "We have not drawn men from the farms, . . . we have added industry to farming. . . . We give any man a leave of absence to work on his farm, but with the aid of machinery these farmers are out of the shops a surprising short while." [5]

On his own farm at Dearborn, Mr. Ford has demonstrated large unit efficiency. Of this, he says: "In plowing time, we string fifty or sixty tractors in a line. They are run by men taken out of the factories and paid the usual factory wage. All the essential operations of the farm are done in this fashion, and altogether we do about fifteen days' work a year—and keep the land in a high state of productivity." [6]

By performing these operations in such a surprisingly short time, Mr. Ford utilizes favorable weather and conforms to the funda-

[5] Henry Ford, "Today and Tomorrow," 1926, pp. 141-2.
[6] *Ibid.*, p. 219.

mental law of efficiency, *i. e.,* maximum production per capita.

His judgment of the future of agriculture is similar to that of Campbell: "The moment the farmer considers himself as an industrialist, with a horror of waste either in material or in men, then we are going to have farm products so low-priced that all will have enough to eat, and the profits will be so satisfactory that farming will be considered as among the least hazardous and most profitable of occupations."[7]

Another illustration of the tendency to decentralize is afforded by the shoe industry, which is being weaned away from New England. The International Shoe Company, a large parent organization of St. Louis, Mo., comprises 43 shoe factories, 5 auxiliary upper fitting factories, and 32 subsidiary factories, all but 5 of which are located in *small* towns of Missouri, Illinois, New Hampshire, Kentucky, Pennsylvania and North Carolina. Jackson Johnson, Chairman of the Board, in an article, "Is American Industry About to Move Out in the Country?" asserts that his organization has, by its policy of develop-

[7] Henry Ford, "My Life and Work," 1923, pp. 15-16.

ing specialized small plants in agricultural regions, "forgotten all about labor troubles, materially reduced labor turnover, relieved congestion of living and transportation, avoided competition among employers [for labor], and counteracted the effects of sectional business depression and crop failure." In his opinion, "the whole country would profit by a general distribution of industries through the agricultural regions," which he says would mitigate temporary reverses in any one branch of production and wipe out class boundaries and conflict in interests. His experience convinces him that this spreading can be done "with every advantage to the industry—stable production, stable labor, stable returns . . . while agriculture would profit more by the movement than any other group." [8]

Henry Ford and Jackson Johnson have shown that a number of small manufacturing plants, properly organized and directed from a central management, are no longer handicapped by the much-discussed overhead, in competing with the larger factories. And the cost of production and distribution of electric

[8] Jackson Johnson, "Capper's Farmer," p. 10.

power over wide areas has been so greatly reduced by the development of very large condensing engines and generators as to eliminate the previous handicap of small power plants. Why may we not assume that the agricultural corporations of the future will operate small local flour mills, and grind and mix their own scientific cattle foods, and even add to their activities small specialty manufacturing plants for shipment of parts to central assembling points, which have become such a feature of automobile production—thus, even more thoroughly, co-ordinating agriculture and industry?

Professor C. R. Fay, an international authority on agricultural problems, who has made a special study of producer and consumer co-operatives, has just returned from attending the sessions of the Alberta Institute of Co-operation at Edmonton, and of the American Institute of Co-operation at Los Angeles and Berkeley. In opening his recent round table conferences at Williamstown on "Agriculture and the Agricultural Surplus," he said: "Agriculture must look to itself" and solve its own problem apart from politics. A co-operative organization gives the farmer

the feeling that he has control of his own economic destiny and is not "a lame dog whining for special aid." Government can only legislate for the mass, and "as in the United States agriculture is not one but many industries, each has its own marketing problems demanding solution," and what is helpful to one may be hurtful to another. But he adds a warning: "Co-operation cannot overthrow the laws of supply and demand without foundering and without bringing against itself the hostility of the community." [9]

As testimony that the farm situation is gradually improving, and that the statements made several years ago regarding the condition of agriculture, and which continue to be repeated, do not apply in the same degree today, C. J. Claasen, Vice-President of the Peters Trust Co., Omaha, in a recently published interview, says: The Nebraska farmer, far from being "broke," is prosperous and contented, and in no more need of help than is the average Nebraska business man. Mr. Claasen supports this statement by many detailed examples, representative of agricultural conditions in Nebraska.[10]

[9] New York *Herald-Tribune*, August 5, 1928.

In discussing Agricultural Corporations or any other method for improving farm *efficiency,* we should give consideration to the proposed legislation for farm *relief*. If, as is claimed, the present tariff schedules are unjust to the farmer, they should be revised. Apart from this, the only argument I have heard which seems to justify any legislation for farm relief is: Owing to the enormous number of farm units it is practically impossible for the farmers, unassisted, through co-operative and other organizations, to stabilize agriculture as the other producing interests of the country are stabilized. So it is proposed, through a properly qualified Farm Board, with government financial assistance (but without government loss), to promote "orderly marketing." The success or failure of this plan depends both upon the method chosen and upon its administration. If the anti-trust laws are upheld, competition maintained, and the law of supply and demand not interfered with it may prove workable; otherwise it is sure to fail. If it succeeds in relieving certain commodities from the effects of a periodically glutted market, with the consequent low price which the producer is com-

pelled to accept, it may not prove as dangerous a precedent as all critics of discriminatory legislation fear. But if, as is proposed by some, our so-called surplus is dumped on foreign markets in such quantity as to reduce our home supply to an extent that artificially raises our home prices, thereby furnishing food and cotton to our foreign competitors at a lower price than that paid by our own people, then the administration sponsoring such law would hardly survive the first succeeding national election. Such policy would not only discriminate against ourselves, but antagonize practically all our foreign customers who, *like ourselves,* are endeavoring to protect their home markets against dumping.

In conclusion, I cannot reiterate too strongly my own earnest conviction that the one great source of "farm relief" consists, not in raising prices, but in encouraging those sound business methods in agriculture which have developed many of our other industries into their world-dominant position of efficiency, such, for example, as the automobile industry. This, while lowering instead of raising the prices of agricultural products, will make that

industry as profitable and attractive as any other in this, our great land of opportunity.

2. Socializing the Soulless Corporation

It is now only about a century since the first state law provided for the formation of corporations, and less than half a century since the corporation approached its present status as the dominant form of business organization. Corporate development was most rapid in such enterprises as the railroads, which required very large capital, and which, owing to the fact that they were indispensable as a public service, were under special law accorded special privileges.

From the very beginning, the corporation was widely criticized as being a device through which an aggregation of wealth could consolidate its power and limit its liabilities. This feeling was greatly accentuated by certain abuses on the part of the railroads of their privileges, and by the inauguration of what is known as the trust, or "Big Business," and the public crystallized its protest in the form of State and Federal anti-trust laws.

The two primary influences which brought about these corporation consolidations known as trusts were: First, the growing demand for investment securities resulting from the rapid increase in our national wealth; and, second, the opportunity of investment bankers, created by this demand, to promote the consolidation of certain corporation groups, and the issue of the consolidated securities to the investing public. The development of nearly every one of our great industries can be traced to the genius or initiative of some one man, who had genius and foresight to develop such opportunity.

The method of procedure on the part of the promoting bankers was, briefly, as follows: A staff of economic engineers, qualified to investigate the history of certain industrial groups and to discern the potential opportunities involved in consolidation, would make a report providing the banker with the information necessary for negotiating with the several corporations in the said group in order to bring about their consolidation.

Inasmuch as many of the men who founded these corporations had invested in them the

greater portion of their fortunes, they realized the risk, in case of death, of leaving their families dependent upon the management of an active business, and therefore were reconciled to selling to the public, through the promoting banker, the business they had created, especially if they received from such sale a reasonable profit.

Through this process of public ownership, the "soulless corporation" has become socialized, and, through the *saving wage,* which has become our national policy, is rapidly distributing the wealth of the nation among all our people, thus creating an economic democracy which scales with our political democracy. This process of distribution has been greatly accelerated by numerous plans created by the corporations for promoting the thrift of their employees by assisting them to become their stockholders. These developments have answered some of the old critics who assumed that the tendency of the corporation was to destroy individual initiative, or the personal equation—that the small business units and the small farms would be swallowed up by the anaconda corporation. This has not happened in industry, so why should it in agriculture?

Industry has developed, as farming will probably develop, along two clearly defined lines: First, the large, or integrated, corporation; and second, the smaller corporations which, while operating independently, together form a chain in industrial production. For example, in the steel industry, the United States Steel Corporation owns and controls practically every phase of steel production from the ore and coal to the finished product, including much of its lake, rail, and ocean transportation. On the other hand, we have smaller corporations owning their ore and coal and producing only pig iron, or such semi-finished products as billets, etc., and selling these to other corporations which, in turn, refine the numerous finished steel products. While the synchronizing process of the former, with its unbroken sequence of production, gives it a certain advantage, the concentration of the latter on each particular phase of the producing process enables it to hold its own. Each of these has its special features of efficiency, and each stimulates the other to that maximum efficiency in both production and distribution which has so improved the living conditions of the American

people and has made the United States so great a factor in the economic life of the world.

This whole process of industrial development has converted innumerable small inefficient business units, which were exhausting each other through competition, without rendering either themselves or the public any adequate service, into what we may regard as social activities owned by the public, operating along the aforesaid two lines of greatest efficiency.

What this has accomplished for the so-called shop industries, I predict it will accomplish for agriculture. The agricultural corporation will absorb some of the small efficient farms, and many of the inefficient farms, and will function as "Big Business" does in industry; while many of the small efficient farmers will continue to operate as links in an agricultural chain. The agricultural corporation need not necessarily own a large undivided acreage, although there would be some advantage in this. If it exercises only that direction necessary to convert the inefficient small farmer into an efficient producer, co-ordinating his activities with those of

others, it will greatly improve the present situation.

One has only to read Reports 103, 104, 105, and 106 (1915) of former Secretary of Agriculture Houston, dealing with the hardships and isolation of farm family life, as compared with the comforts, opportunities, and social contacts developed by urban civilization, to realize that any process which will bring into our colorless farm life some of the social advantages of the small industrial communities (as proposed in my article, "Agricultural Corporations") cannot but greatly improve it.

The impersonal nature of large corporation management insures in itself a clear field for individual effort. A series of articles which appeared in the Brooklyn Daily Eagle in December, 1926, presenting the careers of our railroad presidents, reveals that the great majority of these executives advanced to their present positions from the lowest jobs in railroading, many of them having been deprived of early educational opportunity. Ask James A. Farrell, who entered the employment of a steel corporation as a mill-hand when only sixteen years of age and is now president of

the U. S. Steel Corporation, the largest industrial corporation in the world, whether or not he thinks individual opportunity is lessened by corporation ownership. There is no activity more in need of able service than the big corporation and therefore none so quick to recognize and reward ability.

In the introduction to my little book, *Industrial Ownership,* which discusses the efficiency of big business and its service to the country in distributing the national wealth among all the people, I said: "Nothing in this paper assumes that any economic system will supplant the human equation. We may still have the exceptional Henry Ford. The exceptional worker will become the manager or owner, and the exceptional owner-manager will continue to reap exceptional profits. The paper simply deals with the problem in its mass relation." This applies equally to the human equation in agriculture.

CHAPTER VIII

Industrial Management

(A paper not previously published, written in 1929)

We have seen in the previous article how the drift of efficiency in both production and distribution has been into progressively larger corporation units—in production through the combination of corporations whose activities aand interests lend themselves to co-ordination, and in distribution through the aggregation of a large number of small retail dealers into chain stores, and through department stores and catalogue houses. Practically all of these large corporations list their securities on the New York Stock Exchange for the purpose of distributing them as widely as possible to the investing public. We have seen how the saving wage has developed the great mass of our workers into small investors, who find it difficult, if not impossible, to intelligently exer-

cise their voting right to select a board of directors who in turn are to render the vitally important service of selecting management.

On the theory that by placing the voting power entirely in a portion of the common stock (sometimes a very small portion), known as "A" to differentiate it from "B" or non-voting stock, an interested control could be maintained at a relatively small cost of investment, quite a number of large corporations have adopted this system of organization which has developed widespread criticism and public discussion. As a result, the Listing Committee of the New York Stock Exchange has served warning upon corporations that in future any application for the listing of such stocks will be submitted to the most thorough scrutiny or investigation.[1]

[1] On January 27, 1926, the Committee on Stock List of the New York Stock Exchange made the following announcement:

"The Committee on Stock List has for some weeks had under consideration certain tendencies in modern corporate organization of which the Committee considers that it should take cognizance. One of these tendencies has to do with the creation of two classes of common stock between which the only substantial difference lies in the fact that one class votes while the other class does not. Without at

Attention was called to the abuse which might easily be exercised by the ease with which capital could in this manner obtain control of competing interests. All of this, I think, emphasizes the opinion expressed by me in former papers that the stockholders' interest, and therefore the thrift of the small investor, would be promoted by giving the employees of a corporation the right to select a small minority membership of the board of directors from their own number. This would

this time attempting to formulate a definite policy, attention should be drawn to the fact that in future the Committee in considering applications for the listing of securities will give careful thought to the matter of voting control.''

Based on the principle set forth in this announcement, the Committee on Stock List refused in June, 1926, to list the stock of International Silver Company. Several months later, however, the stock was admitted to trading without any changes having been made in its voting privileges. (See *The Commercial and Financial Chronicle,* June 5, 1926, p. 3157; March 12, 1927, p. 1454.)

A recent review of Wall Street topics says: ''The Gotham Silk Hosiery Company, Inc., has called a meeting of stockholders for March 4 [1929] to vote on the proposal for converting its non-voting common stock into voting common stock. This step has been taken in deference to the wishes of The New York Stock Exchange and as a result of growth of sentiment against two classes of common stocks, one carrying no voting rights.'' New York *Herald,* March, 1929.

have the added value of increasing co-operation between capital and labor by eliminating suspicion and lack of confidence on the part of the workers, who have hitherto been largely kept in ignorance of the plans and policies of the management.

As previously stated, the thrift of the working classes depends primarily upon the security of their savings. When they lose their savings by bad investments they are inclined to feel that the only way to get value out of their earnings is to spend them. While I believe the saving wage and the numerous schemes adopted by the larger corporations to assist their employees to become stockholders are probably all that is needed to promote our industrial prosperity by fairly distributing production between capital, labor, management, and the public, it may stimulate discussion looking to the further stimulation of the personal interest of the worker to note a recent addition to the corporation laws of New Zealand, known as "The Companies Empowering Act" (1924.) Assuming that the typical corporation secures its capital through the issuance of bonds and stock, this law provides for an organized agreement between the

corporation and its employees by which, after the bondholders receive fair compensation (estimated at five per cent) and the stockholders a larger compensation to cover additional risk (estimated at eight per cent), all additional profit is to be divided among the employees upon an agreed-upon basis in the form of labor shares of stock. Such labor shares have all the rights and privileges of the common stock as to dividends, but with certain reservations as to their rights of transfer and redemption. A copy of the Act and a working example are given herewith as addenda.[2]

Such a plan of profit distribution would probably lend itself better to our system if it provided that labor shares so distributed were not to receive any dividends until their book value aggregated at least fifty per cent of the book value of the common stock, and then only after the common stock had received its agreed-upon dividend, thus making such labor shares a junior security and at the same time converting the common stock into a preferred stock.

The self-interest of the worker is in the

[2] See pp. 111-118.

annual result of his service, and there would be no special point in making him keep his labor-saving shares (as provided in the New Zealand Act), if he wished to sell them and invest in the more conservative common (now made preferred) stock of his or some other corporation; and as we have a vast amount of capital seeking investment in speculative, non-dividend-paying stocks, the worker would probably have no trouble in selling his labor stock.

In my article, "Big Business and the Public,"[3] I have called attention to the necessity of giving the workers a measure of interest in management by allowing them representation on the board of directors. I wish further to emphasize what I then said by attaching hereto as an addendum[4] a résumé of a series of articles which appeared in the Brooklyn Eagle giving a history of several of the chief railroad executives in the country; and while I have no such list of those who occupy positions of leadership in industry, I personally know many of them, and would refer again, as in my article on "Socializing the Soulless Corporation,"[5] to the case of James A. Far-

[3] See p. 13. [4] See p. 118. [5] See p. 103.

rell, President of the United States Steel Corporation, who entered the employment of a steel corporation as a mill-hand at the early age of sixteen years.

THE COMPANIES EMPOWERING ACT OF NEW ZEALAND, 1924

[Referred to on p. 109]

Analysis

1924, No. 52.

An Act to amend the Companies Act, 1908, by authorizing Companies to issue Labour Shares to Persons in their Service.

6th. November, 1924.

BE IT ENACTED by the General Assembly of New Zealand in Parliament assembled, and by the authority of the same, as follows:—

Short Title

1. This Act may be cited as the Companies Empowering Act, 1924, and shall be read together with and deemed part of the Companies Act, 1908 (hereinafter referred to as the principal Act).

Any company may issue labour shares if empowered so to do by memorandum of association

2. Notwithstanding anything to the contrary in the principal Act, any company incorporated thereunder (whether registered before or after the passing of this Act) may, if authorized so to do by its memorandum of association, issue special shares (in this Act referred to as labour shares) to persons for the time being employed in the service of the company. Any company registered under the principal Act may from time to time, in the manner prescribed by that Act, alter its memorandum of association to provide for the issue of such shares.

Special conditions attaching to labour shares

3. With respect to labour shares issued as aforesaid the following special provisions shall apply:—

(*a*) They shall have no nominal value, and shall not form part of the capital of the company.

(*b*) They shall be numbered consecutively, commencing with the number one.

(*c*) They shall not be transferable, save in accordance with the provisions (if any) in that behalf of the regulations of the company.

(*d*) They shall entitle the holders thereof to attend and vote at meetings of shareholders, and to share in the profits of the company, or in its assets in the event of its being wound up, to such an extent and in such manner as may be determined by the memorandum of articles of association of the company.

(*e*) Save as may be expressly provided herein or by the memorandum or articles of association of the company, the holders of labour shares shall have and enjoy all the privileges of other shareholders.

Court of Arbitration to certify that scheme is favourable to workers

4. (1) No scheme under this Act for the issue of labour shares by any company and no alteration of such scheme shall be valid unless and until the Court of Arbitration under the Industrial Conciliation and Arbitration Act, 1908, on application by the company, and after taking steps to ascertain the views

of the company and the workers employed thereby, certifies that in its opinion the scheme would be favourable to the general body of the workers.

(2) If at any time complaint is made to the Court by or on behalf of the company or the workers that the provisions of the scheme are no longer favourable to the workers, or that the provisions of the scheme are being violated, or that the scheme is not being fairly administered, or that the scheme is proving detrimental to the business of the company, or that satisfactory reasons exist for revoking the certificate, the Court shall examine into the complaint, and, if satisfied that good cause exists for such complaint, may, on such terms and conditions as it thinks fit, revoke the certificate.

(3) All labour shares issued by the company shall thereupon be deemed to have been surrendered, and there shall be payable either in cash or in capital shares, at the option of the company, to all the holders of labour shares the value of those shares, computed in accordance with the regulations of the company.

Surrendered labour shares

5. If the holder of any labour shares ceases to be employed in the service of the company (whether by reason of death or otherwise) he shall be deemed to have surrendered his shares, and in such case there shall be payable to him or his legal representatives, as the case may be, either in cash or in capital shares, the value of those shares computed in accordance with the regulations of the company.

Payment by Capital shares

6. A company issuing labour shares may, if authorized so to do by its regulations, issue capital shares in payment or satisfaction wholly or in part of any share in the profits of a company to which the holders by virtue of those labour shares from time to time become entitled under the regulations of the company.

Entries in register

7. (1) A company having issued labour shares shall cause to be entered in its register of members from time to time—

(*a*) Full particulars as to all labour shares issued by it, with the names and addresses of the persons to whom such shares have been issued:

STATEMENT OF ACCOUNTS of a New Zealand Coal Mining Company illustrating the method of applying the "Companies Empowering Act, 1924."

(The figures are hypothetical, but are based on the balance sheet of a company in operation.)

BALANCE SHEET

LIABILITIES	£	s.	d.	ASSETS	£	s.	d.
Capital, 80,000 Shares	80,000	0	0	Mining Lease	10,493	0	0
Sundry Creditors	2,528	0	4	Plant, Buildings, Machinery	73,838	13	10
Balance	11,992	6	5	Stocks	2,641	9	5
				Sundry Debtors	6,987	3	6
				Cash and Bank Balances	560	0	0
	£94,520	6	9		£94,520	6	9

PROFIT AND LOSS ACCOUNT

	£	s.	d.		£	s.	d.
Mine Stores and Timber	9,434	13	0	Sales	72,006	16	6
Rents, General Expenses, Rates, Taxes, etc.	4,469	16	8	Stock of Coal	769	19	0
Depreciation, Repairs, and Maintenance	4,897	2	9				
Royalties	2,067	10	1				
Freight	1,275	17	0				
Insurance	928	14	8				
Wages and Salaries	37,710	14	11				
Balance to Appropriations Acc't.	11,992	6	5				
	£72,776	15	6		£72,776	15	6

APPROPRIATION ACCOUNT

	£	s.	d.		£	s.	d.
Interest on Capital, 5 per cent...	4,000	0	0	Balance from Profit and Loss Account	11,992	6	5
Risk Rate on Capital, 3 per cent .	2,400	0	0				
Sick Pay Reserve Fund	754	0	0				
Unemployment ditto	437	10	0				
Superannuation ditto	377	0	0				
General ditto	911	16	5				
Balance to Dividend Account.....	3,112	0	0				
	£11,992	6	5		£11,992	6	5

NOTE.—The equity in the Reserve Funds belongs to the holders of Labour Shares.

DIVIDEND ACCOUNT

		Labour Shares			£	s.	d.
Managing Director and two Directors.....		75		By Appropriation Account	3,112	0	0
1 Secretary		40					
1 Accountant		30					
1 Clerk		20					
1 Storeman		20					
1 Mine Manager		60					
1 Assistant do.		35					
70 Miners	Grade A 25 Shares	1750					
6 Mechanics	" B 20 Shares	120					
13 Shiftmen and Roadmen	" C 18 Shares	234					
41 Truckers and Laborers	" D 16 Shares	656					
6 Boys	" E 12 Shares	72					
		3112					
To Dividend on 3112 Labour Shares @ 20/- = ...		£3,112 0s. 0d.			£3,112	0	0

(*b*) Particulars as to all labour shares surrendered to the company, and of amounts paid by the company to the shareholders on such surrender:

(*c*) Any other consideration given by the company in respect of any surrender of labour shares as aforesaid.

(2) A copy or abstract of such particulars shall in each year be forwarded to the Registrar of Companies with the annual summary required to be forwarded pursuant to section one hundred and one of the principal Act.

Certain provisions of principal Act not applicable to labour shares

8. Nothing in section ninety-seven of the principal Act, or in subsection two of section one hundred and sixty eight or in section one hundred and sixty-nine thereof, shall apply with respect to labour shares issued pursuant to this Act, or to the holders of such shares.

An Incomplete List of Railway Executives Who Rose From the Ranks of Employees

[Referred to on p. 110]

A series of articles presenting the life stories of several railroad presidents ap-

peared in the *Brooklyn Daily Eagle* in December, 1926. A reading of these reveals that:

Howard Elliott, the late Chairman of the Northern Pacific Railroad Co., started his career as a surveyor during college vacation, beginning with a salary of fifteen dollars per month, and his next job was that of a rodman.

Daniel Willard, President of the Baltimore and Ohio Railroad, began his career as a track laborer.

Leonor F. Loree, President of the Delaware and Hudson Co., started railroading as a rodman.

William H. Truesdale, Chairman of the Board, Delaware, Lackawanna and Western Railroad, began with only a common school education, as a secretary-bookkeeper.

William B. Storey, President of the Atchison, Topeka and Santa Fe system, began railroad work as an assistant engineer.

Edward J. Pearson, President of the New York, New Haven and Hartford Railway Co, though a university graduate, began railroad work as a rodman.

Agnew T. Dice, President of the Reading Company, began as a school teacher, and his first railroad experience was as flagman for a section gang.

P. E. Crowley, President of the New York Central Lines, began railroading as a telegraph operator, with only a common school education.

R. H. Aishton, President of the American Railway Association, began as an axeman in an engineer corps.

H. E. Byram, Chairman of the Board, Chicago, Milwaukee and St. Paul Railway Co., began work as a call boy.

J. M. Hannaford, Vice-Chairman, Northern Pacific Railway, began as a clerk in a general freight office.

C. A. Wickersham, President of the Atlanta and West Point Railroad, began as a locomotive engineer.

L. E. Johnson, the late Chairman of the Board, Norfolk and Western Railroad, started his career as a fireman.

Julius Kruttschnitt, the late Chairman of the Southern Pacific Company, began as a junior engineer.

W. T. Noonan, President of the Buffalo, Rochester and Pittsburgh Railway Co., began work in the accounting department.

Samuel Rea, former President of the Pennsylvania system, began in an engineer corps.

Alfred H. Smith, late President of the New York Central system, began as a messenger boy.

William Sproule, President of the Southern Pacific, began as a freight clerk.

J. E. Gorman, President of the Chicago, Rock Island and Pacific Railway, began as a clerk.

Carl Gray, President of the Union Pacific system, began as a clerk.

F. D. Underwood, President-retired of the Erie Railroad, began as a railroad clerk and brakeman.

CHAPTER IX

Education for Political Leadership

Adapted from an address as President of the Washington University Corporation, St. Louis, Mo., at the annual Commencement Exercises, June 7, 1927.

Prefatory Note: *The last Commencement Exercises in which Mr. Brookings participated in his capacity as President of the Washington University Corporation, St. Louis, Mo., were those of June 7, 1927. On that occasion, after announcing, in accordance with the custom of the University, the benefactions received during the academic year, Mr. Brookings expressed his opinion as to the most pressing need of the University, as embodied in the following pages.*

The Honorable Charles G. Dawes, then Vice-President of the United States, as the University's guest of honor on this occasion, addressed the graduating class on the subject "The New Diplomacy."

The outstanding need of our modern economic society is the development of more far-sighted and constructive government policy with reference to national and international problems. From my long experience in indus-

try and commerce, in government administration, and in the study of the relations of economics and government, I am convinced that a solution of our pressing problems can come only with the development of a more enlightened public opinion generally, and with that of more understanding and capable political leaders.

In the following short address I wish to emphasize my conception of the relationship of education to government. Answering the inquiry of several members of the University Board of Directors as to what should be our next great educational objective, I say without hesitation: the better training of men and women for political leadership, which means a stressing of the teaching of the social, economic, and political sciences. These sciences, which touch life every day, from the cradle to the grave, function primarily both in their technique and philosophy through business and government. We as a nation have developed within the short period of a decade or two both the technique and philosophy of business to a degree of economic efficiency which astonishes the world. Technically, it is expressed in our enormous production per

capita, the result of our labor-saving devices, our mass-standardized production, and our genius for management. Philosophically, it is expressed in the wide distribution of our national wealth among all the people through what we call a "saving wage," as differentiated from a living wage, resulting from our changed relation of capital to labor, which exists in no other country and establishes an economic democracy which scales with our political democracy.

In turning to government problems, the picture is not so reassuring. In government technique, or our national administration, we have until within the short period of four or five years very nearly demonstrated to the world the economic inefficiency of a government by the people.

Feeling that the administration of government is primarily a business proposition, a group of business men organized in 1916 an Institute for Government Research, whose publications and other activities developed such an overwhelming public opinion as to cause the Congress to pass a national budget bill in 1921, which it had declined to do under the Taft administration. We owe the operat-

ing efficiency of our budget system to the splendid energies of our guest of honor today —Vice-President Dawes, who was the first director of the Bureau of the Budget. In a recent publication of the Institute for Government Research a comparison of our present national administration with that of the most progressive nations is not *now* so much to our discredit. We are still having difficulty, however, in the proposed reorganization of the administrative departments, which could be greatly improved both in their efficiency and economy.

This brings us to the vitally important problem of the philosophy of government, an outstanding phase of which is: "To what extent shall we appeal to government for the solution of our innumerable social and economic problems as differentiated from our purely political problems?" Measured by historic time, we, as a nation, are still in our infancy. If the Congress is to develop into vote-trading groups or blocs, each of which is primarily interested in securing some special privilege, government by the people has not a very promising outlook.

The remedy is in a higher standard of

statesmanship, in men and women better trained for public service. Government functions through law and a large proportion of our legislators is drawn from the legal profession. The underlying principles of law are embodied in the social, economic, and political sciences. While there is increasing evidence that the universities, both in their law schools and in their other departments, are recognizing the fundamental importance of these studies, this importance is further emphasized by the growth of research activities such as the National Bureau of Economic Research and the National Institute of Public Administration in New York, and the Institute of Economics and the Institute for Government Research in Washington, D. C., which are concerned, primarily, with investigation intended to contribute directly to the solution of the great public problems with which the country and the world generally are confronted. The Washington institutes are expected soon to cover the whole field of the humanistic sciences and, in association with their research activities, they offer fellowships and training which are invaluable to those who plan making public service a career.

CHAPTER X

Industrial Defense

An address as former Chairman of the Price-Fixing Committee and as Commissioner of Finished Products of the War Industries Board, at the graduation exercises of the Army Industrial College, Washington, D. C., March 25th, 1924.

Prefatory Note: *Two addresses on the general subject of Industrial Defense were made by Mr. Brookings to graduating classes of the Army Industrial College—the first of which (1924), discussing the war-time problem of price control, follows in full. They were based upon Mr. Brookings' experiences during the War as Chairman of the Price Fixing Committee and as Commissioner of Finished Products of the War Industries Board.*

The second, or 1926, address, was, in effect, a continuation of the discussion of the industrial problems of war, with emphasis on the economic aspects of preparedness. It stated that, while our experience in the last war has taught us the great importance of national defense preparation, it also

has accentuated the possibility of shaping the economic interests of nations with a view to the prevention of war, as explained in other papers forming part of this volume.

In recognition of "his valuable contribution to the national security through industrial preparedness," Mr. Brookings received from the War Department in June, 1925, an appointment as "Honorary Advisor to the Army Industrial College."

President Wilson summoned to Washington, the last of July, 1917, a group of men for the purpose of organizing the War Industries Board. On arrival in Washington, we reported to the White House, where the President informed us that the industrial problems of the war had so developed that the supply departments of the Army and Navy were unable to cope with them, and that he had determined to organize a War Industries Board, consisting of a chairman, a representative of the Army, a representative of the Navy, a representative of labor, and three commissioners through whom the Board would principally function; *i. e.*, a Commissioner of Priority (Judge Lovett); a Commissioner of Raw Materials (Mr. Baruch); and a Commissioner of Finished Products

(myself). The basic raw materials were the metals—steel, copper, lead, etc.,—and chemicals. The finished products were practically all the ordnance, quartermaster and engineer supplies; arms, ammunition, clothing, etc. The Priority Commissioner was expected to determine the priority of needs as between the Army, the Navy, and our Allies.

When we organized, the purchasing departments of the Army and Navy were negotiating their own prices and arranging as best they could for their supplies, and we functioned principally in advising with and assisting them in every way we could. It soon developed, however, that in order to avoid a runaway market and conflict of interest, both between the departments themselves and with the civilian population, we would have to consolidate both the purchasing and fixing of prices in the War Industries Board.

As the needs of the war developed, the problem of supplies and the fixing of prices grew to such magnitude that the President practically segregated the Board into two sections; one headed by Mr. Baruch—which had jurisdiction over supplies, including allocation and priorities, the other section, known

as the Price Fixing Committee, which had entire jurisdiction over all questions of prices. The two sections functioned entirely independently of each other, the Price Fixing Committee reporting almost daily directly to the President, from whom it received practically the only authority it had for fixing prices contrary to the anti-trust laws, as well as for commandeering products and fixing prices for the civilian population without regular legal authority.

The Price Fixing Committee was composed mostly of the chairmen of other war activities, including Mr. Baruch, Chairman of the War Industries Board; Mr. Garfield, Chairman of the Fuel Commission; Dr. Taussig, Chairman of the Tariff Commission; and Mr. Colver, Chairman of the Federal Trade Commission; a representative of the Army; a representative of the Navy; a representative of labor; and former Governor Stuart of Virginia, representing agriculture. In fixing prices we were, of course, compelled to secure the fullest information regarding costs, so that we practically took over the entire organization of the Federal Trade Commission, consisting of nearly six hundred expert ac-

countants. We had to keep a group of men continuously at work on the most important basic commodities, such as steel. They had access to the accounts of all producers and undertook to furnish us with reliable cost sheets.

It was our custom to fix prices for a period of ninety days only, and as a result we had meetings with the so-called industrial war committees nearly every day. Mr. Baruch and Mr. Garfield were so occupied with their own committees that they never attended any price-fixing meetings. Mr. Garfield, however, sent a representative much of the time. As the Federal Trade Commission and the Tariff Commission, however, had practically ceased to function during the war, Mr. Colver and Dr. Taussig gave the Price Fixing Committee most of their time.

The usual procedure was for the Chairman to assemble all the information regarding costs and conditions and, after studying the problem, call the committee together, and fully explain the situation—after which we would discuss the question of prices before meeting the industrial committee. At the meeting with the representatives of the in-

dustry, after a discussion which generally occupied all the afternoon and frequently extended into the evening, we usually agreed upon the prices to be promulgated for the following ninety days. Although by necessity these industrial committees were small, they sometimes represented a large number of producers, as, for example, in cotton goods I think something more than one thousand mills.

In order that there should be no misunderstanding, and to strengthen the hands of the industrial committee, we sometimes asked the President to issue a proclamation notifying the public that these primary prices had been agreed upon. We had the feeling that, no matter how dissatisfied some producers might have been with the prices as fixed, the force of public opinion was such that they would hardly violate a price fixed by the President's proclamation. We were never disappointed in the result. I cannot recall a single case of violation of the prices we fixed. This gives you roughly a sketch of the activities of the War Industries Board.

I have not a single momorandum among my papers dealing with the thousand and one

problems we had to solve in securing supplies, So I can only briefly "reminisce" over a few of the things which come most vividly to mind, and indicate how our organization developed.

I think almost the first problem I had to solve as Commissioner of Finished Products involved a large number of communications addressed to the purchasing departments of the Government by manufacturers who declined to bid on our needs unless the Government would assure them a supply of much needed equipment such as electric motors, machine tools, locomotive cranes, etc. I immediately got in touch with the leading producers of such equipment, telegraphing the most important men in each industry to come to Washington for a consultation. When they arrived I called their attention to the fact that the probable volume of our needs for equipment indicated that we would have to make a survey of the nation's capacity, with a view to stabilizing both production and price with such control as would enable us to take proper care, not only of ourselves and our Allies, but of the civilian population as well. This was the beginning of what were

afterwards known as commodity sections in finished products. Not a man that we called to Washington, no matter how prominent his position, ever declined to drop everything, come to Washington, and give his whole time and attention to developing a staff and organization that would give us the necessary control of the industry. Between the raw materials and the finished products, I think we had something like five or six hundred expert manufacturers in the numerous commodity sections at the time of the signing of the Armistice.

Among some of our early trials I recall the problems involved in arms. While our own Springfield rifle seems to have no superior, the Government's rifle production was so small as to be immaterial, and the only other source of supply was a large manufacturing company at Chester, Philadelphia, which had been furnishing the English Government with the Enfield rifle. The Ordnance Department reported, however, that this rifle was not suited for our purpose as it was inclined to cartridge-choke, and the parts were not interchangeable, while, on the other side of the water so far from our base of supplies, this

was a great objection. The ordnance people reported, however, that with a little delay these objections could be removed, and the Enfield rifle perfected for our purpose. We agreed with the Department that we could not afford to equip our men with anything but the best, and while the delay left us temporarily short of rifle equipment at the training camps, and we were criticized by the press for training our men with broom-sticks, the results justified the good judgment of the ordnance people, with whom we had agreed, as I believe we had two perfected Enfield rifles for each man that crossed the water.

I recall quite a lot of squabbling over machine guns. The contention was between the Lewis and the light and heavy Browning, the Browning being in process of development. There were difficulties connected with the Lewis patent and I recall any number of meetings and negotiations that I personally had with these people in order, first, to get the machine guns, and then to secure them at a fair price. As I recall, the Lewis, on account of its synchronizing quality, which enabled it to shoot through a propeller, was

allocated by the Ordnance Department to the Air Service.

I remember that when we adopted the 75 and 155 mm. French field guns, and received the first blue-prints, the Ordnance Department had difficulty in finding anyone to undertake their production. I believe, however, it was in the recoil mechanism of the larger ordnance that we struck our greatest snag. It seems to have been so complicated that no one would undertake its production, so that, if I remember correctly, the Government itself was finally compelled to take over one of the automobile factories in Detroit for the purpose of producing this mechanism.

In the early spring of 1918, Mr. Vauclain of the Baldwin Locomotive Works, who was chief of one of my commodity sections, came to me and said that there were two 14-inch naval guns which could be had for use at the front in France if there were any way of making them sufficiently mobile, but no one seemed to think that a train could be produced which would mount them, although he personally felt that it could be done; and if it were possible to get them to the front in France, they would be the longest range

ordnance of their size in the war, and would give the Boche a great surprise. I replied: "If you think it possible, why don't you go to it?" He said: "I will tomorrow, if you approve." You all know the result. It took the entire spring and early summer to equip these trains, and when they were prepared to move to the front the French engineers declared that their bridges were not sufficiently strong. Our own engineers, as I recall, felt differently and proved they were right. I think it was the last of August when the first of these monsters threw a shell into Metz behind the Boche line and I am told that it had something to do with the final break in the German line. In any event, I like to think that this is so, as I have in my office two photographs of the guns in action that were taken at the time mentioned.

I think one of our greatest problems was in connection with ammunition. As late as August, 1917, practically nothing had been accomplished in the way of securing large ammunition or a proper supply of explosives of any kind. The Ordnance Department was doing the very best it could. I remember that I used to make night visits, sometimes as late

as ten or eleven o'clock, to the great garage where an army of men were working, night and day, on the problem of shell contracts, which finally resulted in their placing upon my desk for approval a mass of contracts for two sizes of field gun shells, 75 and 155 mm. While I have no memorandum and cannot recall the exact figures, it seems to me there were about ten million 75 mm.'s at something like $12.00 each, and an equal quantity of 155's at about $22.00 each, aggregating the small amount of over $300,000,000.

We were supposed to advise both as to the form of contract and the price, and were perfectly clear as to the form of contract, but utterly at sea as to price. We skirmished around, however, and decided that the price was too high, probably by a couple of dollars per shell; but there was no doubt that the form of contract was utterly bad, as the Government undertook to furnish shell bars at a certain price, delivered all over the country to plants with whom they contracted to do the forgings. Then they agreed to transport these to other places where they made contracts for machining, and finally transported them to the filling stations in the East. Hav-

ing had some experience with congested transportation and dealings with an aggregated lot of contracts of this kind, I felt that it was almost hopeless to secure efficiency, but the Ordnance Department reported that it was the only thing they could do as there were practically no producers of shells with whom they could deal directly. They said, rightly, that it was an emergency matter and they simply had to do the best they could. I called up Secretary of War Baker, and told him I thought that an emergency problem as important as this should be passed on by him—in which he acquiesced, relieving us of the responsibility.

This is in no way a criticism of the Ordnance Department, as General Crozier always seemed to me to be the ideal soldier. It was his business to get supplies and no matter what the difficulties, there seemed to be only one method of procedure. We know, however, the result. The war was nearly over before these shells came through in any quantity.

I don't recall our having any difficulty with small ammunition, as our sporting goods producers were fully equipped with abundant facilities. As an example, however, of utter

lack of co-operation between the Army and Navy, I remember that in checking over the powder supply and cost of production I visited the naval plant at Indian Head and secured cost sheets from it for comparison with those of the Army. I was surprised to find that it cost the Army, as nearly as I can recall, very much more to produce its powder than the small but very efficient plant at Indian Head, and upon inquiry I was told that there had never before been an investigation which would have revealed this lack of army plant efficiency. You are all familiar with the history of our difficulty in securing sufficient powder. As our Allies were dependent upon the du Ponts for a large part of their supply, we were compelled to undertake the erection of two large powder plants which were just approaching completion and production when the war ceased.

We had some considerable difficulty in the early days of the war in securing a supply of those explosive chemicals which were by-products of gas and coking plants. One of the most acute cases, however, was in connection with optical glass. We were told that the Germans had always had a monopoly of

optical glass, which was one of the most vital needs of the war—large ordnance was of no use without range-finders, and we could not get along without field glasses. We called a meeting of the representatives of the largest optical concern in this country (I think it was Bausch and Lomb, of Rochester), the Director of the Bureau of Standards, and the Director of the Geo-physical Laboratory of the Carnegie Institution. They all agreed that the difficulties of the problem required that they should concentrate on the necessary research which would enable them to produce acceptable optical glass. The Pittsburgh Plate Glass Company built at their works a small experimental plant for us, and everybody went to work. I simply have a hazy recollection of a certain quality of sand, some peculiarity of crucibles and other details, and a seemingly long delay after which they finally managed to produce high class optical glass and, like most other things, it began to come through in quantity as our needs became less pressing.

As a rule, while our highly developed textile manufacturing interests, that is, woolen and cotton fabrics and shoe industries, were

in the best position to supply us with our important quartermaster needs, we were not without difficulty in securing such raw material as wool, and experienced some trouble in securing a supply of cotton duck. As our needs for woolen blankets and cloth grew, there was such a scarcity of wool that we were compelled to develop a large supply of shoddy. At one stage of this problem, we called the wool dealers, who were thoroughly organized, to Washington, requesting that they bring a statement of all the wool they had on hand. I think this was in the winter of 1917-18 when the crop was out of the hands of producers and owned by the dealers who had purchased it at a comparatively low price and, at the market rate, were reaping an enormous profit. We explained to them the situation and told them the Government would either have to commandeer all the wool in the country and depend upon the court to fix a fair price, or they would have to agree with us upon a price—much lower than the market—at which they would voluntarily turn over all the wool they had. Suffice it that we finally agreed upon a fair price and the Government took over all the

wool and the dealers agreed that they would handle the coming year's clip on a small commission basis which we fixed. We then called together the wool growing organizations of the country who had been bitterly complaining that, having sold their last year's crop at a very low price, they derived none of the advantages of the advanced prices. We explained to them the basis at which we had taken over all the wool and we proposed to pay them the same price for the coming year's clip, and also told them that the wool commission houses would handle it as usual, receiving only a small commission which would about cover the expenses.

Here again the power to commandeer and the unknown quantity as to what the courts would consider a fair price under war conditions enabled us to do what we could not otherwise have accomplished.

When we first called together the cotton textile manufacturers, they said that owing to the large variety which they produced, it was practically impossible to agree upon prices for cotton goods. We soon convinced them that this was not the case; that by fixing the prices on staple products most essen-

tial to our war needs, such as gauze, duck, and denim, and a basic price on such other products as sheeting, prints, etc., we could by a system of differentials, based upon pre-war values, practically cover the prices of all their products, and we finally concluded an agreement along these lines.

One of our first little difficulties was with a group of New England factories which undertook to charge us what we thought an excessive price for the enormous quantity of gauze we needed. This was made on print looms which necessitated a lessening of print production and it was only after we finally threatened to commandeer their plants that they met our views as to prices.

As an example of the vast amount of duck which was required, after we had contracted for every yard made by the fifteen or seventeen duck mills of the country, we were compelled to pay an extra price to carpet factories to induce them to change their looms over to duck production in order to secure our needs.

In reviewing the prices on hides, leather, shoes, harness, saddles, etc., it will amuse you, I think, to hear of a little conflict of

interest between the Food Commission and ourselves. At a meeting with the packers who practically controlled the hides, we insisted upon a lower price on hides than they seemed to think was fair to the Food Commission. As the packers were guaranteed by the Government a certain profit, it made no difference to them whether this profit came out of the beef or the hide. If they charged a lower price for hides, they would have to charge a little more for beef and so they practically threw the responsibility on the two departments of the Government to determine the matter. I think, as the hide was so very much the smaller part of the animal, and the prices we were paying for shoes seemed to loom large, that they finally agreed to fix the lower price on hides.

I might "reminisce" without end along these lines, but will simply conclude by giving you an example of a complicated price-fixing job. As late as January, 1919, after the War Industries Board had been dissolved, although the Price-Fixing Committee was still in commission for the purpose of closing a lot of price-fixing problems that had not expired, we were notified by the Railroad

Commission of a purchase they had made nearly a year before of steel freight cars, involving a sum so large that I am afraid to trust to my memory for the figures. The contract for these cars provided that the steel car people should assemble all the material that goes into a car and charge the Government, I think it was five per cent, for putting it all together—so that the basic cost of the car was a tentative price fixed on every single item that went into it, which you probably know involves a large number of castings of every kind. The contract provided that the sub-contractors who furnished these castings would finally submit their costs to the Price-Fixing Committee and both parties to the contract agreed to accept in the final settlement the price which the Price-Fixing Committee might determine was a fair and just one. It was evident that this contract was made in this way because the Government was being criticized by the railroads for loading them down with fixed capital investment at a time when everything was supposed to be abnormally high, and in this manner the Railroad Commission avoided the responsibility of fixing a price.

I shall not go into the details involved in summoning all these producers to Washington with sworn statements as to their costs and the difficulties we had in trying to satisfy both parties. Suffice it that we insisted upon the Government's representative sitting in through all the testimony and it was a satisfaction to know that when we fixed the price, although, perhaps, neither party was satisfied, each agreed that on the evidence it was the only thing we could do. Here again one of the helpful influences was the fact that had the producers secured the higher price for which they were contending, the Government would have taken most of it through the 80 per cent excess profit tax.

And so you will see from the whole history of price fixing, as I have stated to the War Department in writing, that if in the event of another war, we lack authority of law for doing again the things that we did, both in price fixing and commandeering, it is to be hoped that we will have a President with the vision and courage of President Wilson, who did not hesitate as Commander-in-Chief of the Army and Navy to assume that dictatorship absolutely essential for the protection of

the civilian population and the winning of the war.

Shortly after the Armistice, in discussing with General Lord our war problems, one day at luncheon, he asked me what sort of an organization I thought we should have in preparing for the possibilities of another war, and I believe I replied that the problem seems to segregate itself into three parts: (1) The campaign as developed by the General Staff; (2) The Engineers', Quartermaster and Ordnance Departments' needs for the carrying out of said campaign; and (3) the necessary mobilization of the industries of the country to supply these needs.

The latter is necessarily an industrial or civilian problem such as required the vast organization of the War Industries Board. When asked, as I was, whether or not I thought the Government should maintain certain sources of vital production, such as arms and ammunition, I was frankly at a loss to answer, as the du Ponts were about to scrap their big plant near Richmond. It seemed to me that one or the other of our two large powder plants might have remained in the possession of the Government and that some

process of utilizing them under lease, probably for some industry quickly convertible into powder production, would have been a wise provision.

The future needs of war, however, seem to be in such a state of flux that no one could form a judgment as to the degree in which the Air Service with certain gases and other explosives, including the vicious suggestion of disease germs, would exclude other methods used for the destruction of mass population.

Discussion with Audience

Q. The law requires the procurement branches of the War Department to procure supplies in time of peace by advertising for proposals, and making awards on bids submitted. What, in your opinion, would be the effect on prices if this method were followed in time of war? Would you recommend this method, or

(1) Should the procurement branches depend upon negotiating prices with allocated facilities; or
(2) Depend upon having prices fixed by some agency such as a Price Fixing Committee?

A. It is inevitable, in time of war, that production is lessened and unsettled by the war conscription of men, and the demands of the Army and Navy for supplies so large as to make an open market impossible. Therefore, any process of advertising for proposals, which indicates an open market, would be impossible. Unless entire control is taken of production, allocating supplies and fixing prices, speculation would so inflate values as to make it practically impossible to maintain the stability necessary for financing a war and the protection of the civilian population. I, therefore, give it as my unqualified opinion that, immediately upon the country becoming engaged in war, you should be prepared to do exactly what the War Industries Board did, through its commodity sections—allocating orders and determining priorities—and through its Price Fixing Committee in fixing prices.

Q. We occasionally hear reference made to to the possibility of drafting labor in time of war. Do you think it is feasible to do this?

A. I have given the matter very little thought, but my first reaction is that there is no occasion for drafting labor. Men would much rather work than go to the

front, and while you can draft a man and make him go to the front and can draft labor, you cannot make labor work efficiently except by making it to labor's financial interest. It is the old story of taking a horse to water, but not being able to make him drink. In a general way, I would handle labor by agreement with the unions, just as I would handle prices by agreement with the manufacturers; rather than by any process of coercion.

Brookings, Robert S.

Economic democracy